

Norman B. Rice  
President and Chief Executive Officer

January 14, 2004

Ms. Elaine L. Baker  
Secretary to the Board  
Federal Housing Finance Board  
1777 F Street, NW  
Washington, DC 20006

**Re: Proposed Regulation – 12 CFR 900 and 998  
Registration by Each Federal Home Loan Bank of a Class of  
Securities Under the Securities Exchange Act of 1934**

Dear Ms. Baker:

The Federal Home Loan Bank of Seattle (the "Seattle Bank") appreciates the opportunity to offer its comments on the Federal Housing Finance Board's proposed regulation (the "Proposed Rule") regarding the registration by each Federal Home Loan Bank ("FHLBank") of a class of its securities under the Securities Exchange Act of 1934, as amended (the "1934 Act"). The Proposed Rule was published in the *Federal Register* on September 17, 2003.

The Seattle Bank is committed to the highest standards of corporate ethics and governance, including the highest level of public disclosure and transparency. We support the Finance Board's objective of helping to maintain the long-term confidence of the investment community and the national rating agencies by requiring the FHLBanks to provide comprehensive, fully transparent securities disclosure. We believe that we can satisfactorily achieve our housing and mission-based goals only by achieving and maintaining the highest standards of ethics, governance, and disclosure.

The Seattle Bank intends to work cooperatively with the Finance Board and other appropriate parties to achieve the requisite public disclosures in a prudent manner. In furtherance of this goal, we have previously expressed our intent to register with the SEC under the 1934 Act, subject to satisfactory resolution of all disclosure, reporting and accounting issues that arise from the unique cooperative nature of the FHLBanks and the Federal Home Loan Bank System (the "Bank System").

The Proposed Rule would require each FHLBank to voluntarily register a class of its securities with the SEC under Section 12(g) of the 1934 Act. The Seattle Bank supports both the stated goals of the Proposed Rule and the concept of SEC registration for the purpose of becoming subject to the periodic reporting requirements of the 1934 Act.

The Seattle Bank believes, however, that any final regulation requiring voluntary registration must take into account and resolve significant issues that would affect the ability of the FHLBanks to carry out their housing finance mission, to operate in a financially safe and sound manner, and to continue to raise funds in the capital markets. Some of these issues are discussed below. We also firmly believe that registration should not be required until the

Finance Board and the FHLBanks have had adequate time to address and resolve these issues.

**A. Underlying Principles.**

The Seattle Bank has identified four core principles that we believe must underlie any SEC disclosure regime that may be applied to the Bank System. Any such disclosure regime must:

- (a) Preserve the cooperative ownership of the Bank System;
- (b) Not disrupt the capital markets, causing an increase in the FHLBanks' cost of funds;
- (c) Preserve the FHLBanks' ability to meet their mission and serve the needs of their members and communities; and
- (d) Not adversely affect member institutions, including their ability to hold Bank System stock or debt or the amount of capital they are required to hold against such investments.

We believe that the Proposed Rule in its current form does not ensure the satisfaction of these core principles. For example, the Proposed Rule does not take into account the unique cooperative nature of the FHLBanks or the Bank System. Instead, it seeks to overlay on the FHLBanks, unmodified, a regulatory regime that is intended to apply primarily to companies whose stock is freely traded in the public markets. Rather than applying the relevant periodic reporting requirements of the 1934 Act to the FHLBanks in a selective and appropriate manner, the Proposed Rule would subject the FHLBanks to virtually all of the provisions of the 1934 Act. Many of these provisions do not make sense, given the nature of the Bank System. We believe that, in some cases, attempting to comply with seemingly irrelevant provisions of the 1934 Act could interfere with the FHLBanks' ability to carry out their mission and to access the capital markets.

**B. The Finance Board Should Represent the FHLBanks with the SEC to Ensure that Appropriate Exemptions Are Obtained.**

The Seattle Bank understands the Finance Board's rationale for proposing that the FHLBanks' public disclosure should be subject to the disclosure rules and regulations promulgated by the SEC under the 1934 Act. We agree with the Finance Board that these rules and regulations establish the best practices standard for disclosure in the United States, and we have every intention of meeting or exceeding the same disclosure standards that apply to other companies.

We believe, however, that the FHLBanks should not be required to voluntarily register a class of equity securities with the SEC until the Finance Board has exercised its duty, as the regulator of the Bank System, to ensure that only the relevant portions of the SEC's rules and regulations are applied to the FHLBanks. The Finance Board has statutory responsibility for maintaining the safety and soundness of the FHLBanks and for ensuring that the FHLBanks are able to raise funds in the capital markets. We believe that in order for the Finance Board to properly exercise its duties it must take the lead in working with the SEC to determine which provisions of the SEC rules and regulations should apply to the FHLBanks, and which

should not. In this manner, the Finance Board would continue to carry out the mission assigned to it by Congress by helping to minimize any unnecessary or inappropriate adverse impact that SEC registration might have on the Bank System.

In addition to its statutory obligations, the Finance Board is the logical representative of the Bank System in regard to the proposed changes to the FHLBanks' disclosure obligations. In its capacity as the regulator for the Bank System, the Finance Board has vast experience with the activities and operations of the FHLBanks and the peculiarities of the Bank System. The Finance Board already administers a securities disclosure regulatory regime for the Bank System that is generally consistent with the SEC's Regulations S-K and S-X. As a result, the Finance Board is knowledgeable about the intricacies of the Bank System and has an unparalleled ability to identify to the SEC the areas in which exemptions are required in order to adapt the SEC's disclosure rules and regulations to the unique nature of the Bank System.

It has been suggested that each of the twelve FHLBanks should negotiate with the SEC on an individual basis to obtain necessary exemptive relief or no-action assurance with respect to inapplicable SEC rules and regulations. The Seattle Bank believes that this would be an unduly inefficient, expensive, and burdensome process that could result in inconsistent treatment of the FHLBanks. We believe that it is necessary and appropriate for our regulator to take the lead in working with the SEC, with and on behalf of the FHLBanks, to ensure that all of the issues are resolved in a manner that is fair to all of the FHLBanks and consistent throughout the Bank System.

**C. Registration Should be Required Only After the Finance Board Has Reached a Satisfactory Resolution with the SEC Regarding All Relevant Issues.**

The prospect of SEC registration raises a number of reporting and accounting issues for the FHLBanks. We believe that failure to resolve these issues and to obtain appropriate exemptions prior to registration would raise significant safety and soundness concerns for the Seattle Bank, our sister FHLBanks, and the Bank System.

We believe that the Finance Board should work with the FHLBanks and the SEC, prior to the effective date of any final regulation, to identify and resolve all of the issues that will require exemptive relief or other accommodation from the SEC. Any final regulation should condition the registration requirement upon the prior execution of a memorandum of understanding ("MOU") between the Finance Board and the SEC with respect to the resolution of these issues and with respect to a set of principles that should be established to guide future SEC action related to the FHLBanks. Both the Directors of the Finance Board and the Commissioners of the SEC should approve the MOU. The FHLBanks should also have the opportunity to review, comment on, and approve the MOU.

In addition to resolution of the identified issues and adoption of principles to guide the resolution of future issues, the MOU should provide that the Finance Board's imposition of a regulatory requirement for the FHLBanks to voluntarily register a class of equity securities with the SEC is contingent upon the SEC's continued adherence to the terms of the MOU. It should also provide a mechanism for deregistration in the event that the Finance Board were to determine either that the SEC failed to comply with the terms of the MOU or that registration was having a negative impact on the safety and soundness of the Bank System, the ability of the FHLBanks to access the capital markets, or the ability of the FHLBanks to achieve their housing missions. Furthermore, the MOU should make each of the twelve FHLBanks an express third party beneficiary of the deregistration provision and authorize

each of them to bring an action against the SEC to assert their deregistration rights under the MOU if necessary.

If a final regulation is not conditioned upon the prior execution of such an MOU, it should, at minimum, be conditioned upon final resolution between the Finance Board, the SEC, and the FHLBanks of all issues related to accounting, reporting and disclosure issues, through appropriate no-action letters or other exemptive relief.

**D. Several Issues Must Be Resolved Prior to Registration.**

The Seattle Bank believes that, given the unique nature of the FHLBanks and the Bank System, the SEC will need to agree to a number of specific exemptions or accommodations to the periodic reporting rules and regulations in order to properly apply those rules and regulations to the FHLBanks. We believe that the Proposed Rule does not adequately address either these issues or their resolution.

The Proposed Rule also does not address the fact that, without appropriate exemptions, registration by a FHLBank of a class of securities under the 1934 Act would go well beyond the stated goal of applying the periodic reporting requirements of the 1934 Act to the FHLBs. Rather, the Proposed Rule would also subject the FHLBanks to all of the other provisions of the 1934 Act that apply to registered companies. Many of these 1934 Act provisions make little sense for the FHLBanks, which are cooperatives whose shares are not freely traded and may only be purchased and owned by their members in accordance with the Federal Home Loan Bank Act and the rules and regulations of the Finance Board.

As the Finance Board is aware, we have been participating with a task force that has been charged by several of the FHLBanks with identifying issues that would arise as a result of overlaying an SEC regulatory scheme over the Bank System's current regulatory system. The Seattle Bank intends to continue to work cooperatively with the Finance Board and the SEC to resolve the issues in a manner that preserves our ability to access the capital markets and carry out our mission, given our unique structure and regulatory mandate.

We believe that any final regulation should require the execution of the MOU discussed above, which should include, at a minimum, the following points:

1. In order to minimize the potential for disruption of the Office of Finance's issuance of consolidated obligations, the SEC should agree to act promptly and on a priority basis to resolve any issue that may arise in regard to any FHLBank. The SEC should agree that, in resolving any such issues, it will give due consideration to the ongoing safety and soundness of both the individual FHLBanks and the Bank System and to the importance of maintaining the access of the FHLBanks to the capital markets and that its review of FHLBank periodic reports or other disclosure will not interfere with the issuance of consolidated obligations by the Bank System.
2. Statements of condition of the FHLBanks should not be required to reflect any liability amount for the future obligations by the FHLBanks to the Resolution Funding Corporation.
3. Statements of condition of the FHLBanks should not be required to reflect the fair value of any liability related to any contingent payment liability of a FHLBank

for repayment of consolidated obligations of the Bank System from which it did not receive proceeds.

4. Statements of condition of any FHLBank should not be required to reflect or take into account, in any respect, the financial condition of any other FHLBank, and no FHLBank should be required to make any statement or certification in relation to the financial statements, operations, or activities of any other FHLBank.
5. FHLBank statements of condition should reflect as equity all shares of Class A and Class B Stock. Such stock should not be required to be referred to or described as "puttable", and the submission of a redemption notice by a member, or the occurrence of any other redemption triggering event, should not change the continued equity treatment of the stock.
6. The FHLBanks should be authorized to continue to prepare their joint financial statements issued in connection with consolidated obligations in the form of combined financial statements, and these statements should not be subject to SEC review or regulation.
7. The FHLBanks should be exempted from the application of provisions of the 1934 Act and SEC rules and regulations that are not appropriate or that are inconsistent with the unique Congressionally mandated structure of the FHLBanks. For example, without an exemption, registration of equity under the 1934 Act would subject the officers and directors of each FHLBank to the reporting and short-swing trading provisions of Section 16 of the 1934 Act and the beneficial reporting requirements of Section 13 of the 1934 Act. The result of these requirements would be that, even though FHLBank shares are not publicly traded and can only be owned by members, for directors who are affiliated with member financial institutions (as most directors are), the directors would be required to file reports every time the share ownership of their organizations changed, which could be frequently. Doing so would be burdensome to the directors and costly to the FHLBanks and would serve no valid purpose. Similarly, the proxy rules of Section 14 of the Act should not apply to the FHLBanks because the election of directors and other actions that would normally be voted on by the shareholders of a corporation at meetings of the shareholders are conducted in an entirely different manner in accordance with the provisions of the Federal Home Loan Bank Act and under the auspices of the Finance Board. The FHLBanks would also need relief from the provision of the SEC's Regulation FD in order to be able to conduct business in the ordinary course with meaningful communication between the FHLBanks, which issue consolidated obligations, and between the FHLBanks and their members, which are actively involved in business with the FHLBanks on a regular basis.
8. Issues raised by the application of the Sarbanes-Oxley Act of 2002 would need to be resolved, such as the effect of the FHLBanks' joint and several liability on Section 302 certifications, and the status of Audit Committee independence requirements, given the statutorily mandated nature of the FHLBanks' board composition.

9. The SEC should document in writing changes in accounting or disclosure presentation that it will impose on the FHLBanks as of the date of registration.
10. The SEC should agree to give prompt consideration to requests by the Finance Board or a FHLBank for exemptive action or interpretive advice in regard to provisions of the 1934 Act or SEC rules and regulations that may interfere with or may not be properly applicable to a FHLBank because of the cooperative membership structure of the FHLBanks, the absence of a public market for the equity securities of the FHLBanks, the frequent issuance of consolidated obligations by the FHLBanks through the Office of Finance, or other circumstances relating to the structure of the Bank System.

**E. Registration Should Not Be Required Until the Relevant Issues Have Been Resolved and the FHLBanks Have Adequate Time to Respond to the New Requirements.**

The Seattle Bank believes that any final regulation should provide for a reasonable period from its effective date before the FHLBanks will be required to register a class of equity securities with the SEC under the 1934 Act. Even after the relevant issues have been resolved among the Finance Board, the FHLBanks, and the SEC, whether in an MOU or otherwise, registration of a class of equity securities under the 1934 Act will be an arduous and comprehensive task. It will involve changes to the Seattle Bank's policies and procedures and will require preparation of a comprehensive registration statement. Although we are already in the process of developing appropriate policies and procedures and taking other necessary actions, we recognize both that the process will be time consuming and that we cannot complete it until all of the relevant issues have been resolved.

An adequate amount of time between adoption of any final regulation and the deadline for registration will become even more crucial if the Finance Board adopts a final regulation before the various outstanding issues are resolved and the regulation does not require execution of an MOU with the SEC prior to registration. In that event, the FHLBanks will undoubtedly have to request various forms of exemptive or other relief from the SEC prior to registration. The FHLBanks might also have to request certain regulatory or other actions by the Finance Board in order to be in a position to accommodate requirements of the SEC that are not consistent with the current operations of the Bank System.

In addition, the FHLBanks could be required to develop and implement new procedures and controls to address SEC requirements, particularly if the SEC were to seek to impose some degree of responsibility on an individual FHLBank with respect to the financial statements, condition, or business operations of the other FHLBanks. Any such requirement would represent a major change in the current governance and information sharing principles under which the FHLBanks currently operate. It would require careful consideration by the FHLBanks and the Finance Board of how a far more integrated relationship among the FHLBanks could and should be structured, as well as the statutory and regulatory changes that might be necessary to accomplish such a restructuring.

We believe that 18 months would be a reasonable period to permit us to adequately comply with any of the SEC's rules and regulations as may ultimately affect us and to ensure that all the actions necessary for the continued safe and sound operation of the Bank System are accomplished in the event of mandatory SEC registration. The 18-month period should begin to run on the later of: (i) the effective date of any final regulation; (ii) the execution of the MOU

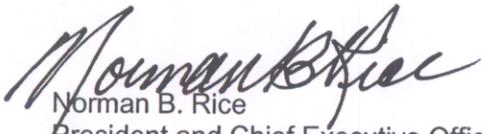
described above, if the final regulation requires the MOU; or (iii) if an MOU is not a condition to the regulation, the final resolution, to the reasonable satisfaction of the Board of Directors of the registering FHLBank, of all relevant disclosure, reporting, and accounting issues.

**F. Conclusion.**

The Seattle Bank commends the Finance Board for its commitment to the objective of having each of the FHLBanks provide comprehensive, fully transparent disclosure. We believe that this objective may be achieved by means of registering a class of our equity securities under the 1934 Act. We believe, however, that any regulation that the Finance Board adopts that would make voluntary registration a requirement should take into account, and provide for the resolution of, all disclosure, reporting, and accounting issues that relate to the unique cooperative nature of the FHLBanks and the Bank System.

Thank you again for the opportunity to comment on the Proposed Rule.

Sincerely,



Norman B. Rice  
President and Chief Executive Officer