

Proposed Rules

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This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

FEDERAL HOUSING FINANCE BOARD

12 CFR Parts 915

[No. 2003–06]

RIN 3069–AB25

Federal Home Loan Bank Appointed Directors

AGENCY: Federal Housing Finance Board.

ACTION: Proposed rule.

SUMMARY: The Federal Housing Finance Board (Finance Board) is proposing to amend its rules to provide that at least one of the appointed directors serving on the board of directors of each Federal Home Loan Bank (Bank) has a background or experience that reasonably demonstrates that the director would have a strong understanding of the risks arising from the activities of a particular Bank. The proposed rule is intended to enhance the corporate governance practices of the Banks.

DATES: The Finance Board will consider written comments on the proposed rulemaking that are received on or before June 17, 2003.

ADDRESSES: Send comments by electronic mail to comments@fhfb.gov, by facsimile to 202/408–2580, or by regular mail to the Federal Housing Finance Board, 1777 F Street, NW., Washington, DC 20006, ATTN: Public Comments. Comments will be available for public inspection at this address.

FOR FURTHER INFORMATION CONTACT: Neil R. Crowley, Deputy General Counsel, 202/408–2990, crowleyn@fhfb.gov; or Thomas E. Joseph, Senior Attorney-Advisor, 202/408–2512, josepht@fhfb.gov, Office of General Counsel; or Patricia L. Sweeney, Program Analyst, Community Investment and Affordable Housing Division, Office of Supervision, 202/408–2872, sweeney@fhfb.gov, Federal Housing Finance Board, 1777 F Street, NW., Washington, DC 20006.

SUPPLEMENTARY INFORMATION:

I. Background on Proposed Rule Amendment

The Finance Board long has believed that an active and informed board of directors is one of the cornerstones of safe and sound Bank operations. *See, e.g.*, 65 FR 25267 (May 1, 2002) (adopting revisions to part 917 of the Finance Board regulations). To this end, the Finance Board previously has adopted rules that are intended in part to describe the responsibilities of a Bank's board of directors and create standards against which a board's fulfillment of these duties may be judged. *Id.* Over the last few years, the Finance Board also has adopted rules that provide the Banks with authority to engage in a wider range of asset activities than had been the case in the past, and, as required by the Gramm-Leach-Bliley Act (GLB Act), Public Law 106–102, 133 Stat. 1338 (Nov. 12, 1999), to have more discretion in designing their capital structures. *See* 65 FR 43969 (July 17, 2000) (revising the Bank's investment authority) and 66 FR 8262 (Jan. 20, 2001) (adopting final capital rule). While these changes provide the Banks with greater flexibility to address members' needs and to fulfill their housing finance mission, they also mean that the Banks may need to manage new risks as their activities evolve. To help assure that a Bank's board of directors continues to possess the required aggregate skills needed to provide strong oversight in light of changing Bank activities, the Finance Board is proposing to appoint at least one director at each Bank who will have the background to address the risks that arise from a Bank's activities.

II. Explanation of the Proposed Rule Amendment

Section 7(a) of the Federal Home Loan Bank Act (Bank Act), 12 U.S.C. 1427(a), provides the Finance Board with broad discretion to appoint a requisite number of directors to the board of directors of each Bank, although such directors must meet certain minimum statutory requirements. For example, appointed directors must be citizens of the United States, must be a resident of the district of the Bank on whose board the director serves, and at least two of the appointed directors on each Bank's board must be representatives chosen from organizations with more than a two-year history representing consumer or

community interests on banking services, credit needs, housing, or financial consumer protections. *See id.* Appointed directors also must be independent of the Bank and its members, and thus are prohibited from having certain financial interests in either entity. *Id.* Consistent with this statutory authority, the Finance Board rules provide that the Finance Board shall in its sole discretion select the appointed directors for each Bank in accordance with the Bank Act. 12 CFR 915.10(a).

Given the broad discretion afforded the Finance Board by section 7(a) of the Bank Act, the Finance Board also has authority to establish eligibility standards in addition to the minimum requirements set forth in the Bank Act that must be met by potential appointed directors before it will appoint such persons. *See* 12 U.S.C. 1422b(a)(1) (authority to promulgate regulations and orders necessary to carry out purposes of the Act). Based on this authority, the Finance Board is proposing to amend § 915.10(a) to provide for the appointment to the board of directors of each Bank at least one director who can demonstrate an understanding of the risks faced by a particular Bank because of its investment and financing activities. Having at least one appointed director who has this expertise should help improve a board of directors' oversight and management of its Bank.

The proposed rule does not require the Finance Board to appoint a person with the required expertise to a specific Bank's board of directors each year, but provides that there will be at all times, an appointed director serving on the board of a Bank with the required understanding. Thus, if there is an existing appointed director on a Bank's board who, in the Finance Board's opinion, reasonably demonstrates the skills required under the proposed rule, and who will continue to serve on the board for the coming year, another person with these skills would not need to be identified and appointed to that Bank's board.

To fulfill the criteria of the proposed rule, a person would be expected to bring knowledge and perspective to a Bank's board that would strengthen the board's ability to analyze and manage the risks faced by the Banks, including interest rate risk, market risk, and the risks arising from options associated