

# 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](mailto: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](mailto:crowleyn@fhfb.gov); or Thomas E. Joseph, Senior Attorney-Advisor, 202/408-2512, [josepht@fhfb.gov](mailto: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](mailto: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

with a particular Bank's financing and investment activities. In particular, the Finance Board would expect the candidate who meets the requirements of the proposed rule to demonstrate a strong understanding of the risks faced by the Banks in supplying financing to members in fulfillment of the Banks' housing finance mission. The Finance Board also expects to apply any rule flexibly, taking account of the expertise of a Bank's existing directors, the activities and risk profile of the particular Bank, the pool of available candidates and other similar factors in identifying a qualified appointed director so that the level of skills and experience that could qualify a person for an appointed directorship under the proposed criteria could vary somewhat from Bank to Bank.

Generally, the Finance Board believes that a potential appointed director could be considered to have the required skills if, based on work experience, publications or other relevant information, the Finance Board reasonably believed that an individual would have a strong understanding of the market, interest rate and other risks faced by a particular Bank. The Finance Board also believes that the proposed rule should not limit narrowly the professional pool from which a qualified appointed director could be chosen but that the pool of potential candidates should encompass a wide variety of professions including academia, the legal profession and government service. The Finance Board specifically requests comment on the criteria discussed above.

The Finance Board expects this new requirement to be mandatory and to apply to public interest director appointments for each of the 12 Banks for the terms beginning on January 1, 2004. The Finance Board requests comments on whether one such director at each Bank is sufficient, or whether the requirement should be expanded to two or more directors with the requisite expertise who would serve terms that are not co-terminus. In addition, the Finance Board is interested in receiving comments on whether the rule should specify other specific areas of expertise, in addition to the ones specified in this proposal, that should apply to the appointment of public interest directors.

The Finance Board also is proposing to delete from § 915.10(b) language that was needed to implement the "staggering" required by the GLB Act for replacement of a Bank's directors. See 65 FR 41560 (July 6, 2000). Because the language, by its terms, only applies to Finance Board appointments made in 2001 and 2002 and is, therefore, no

longer applicable, the Finance Board proposes to delete the second sentence of § 915.10(b). The Finance Board also proposes to delete Appendix A to part 915, which includes matrices relating to the directorships of the Banks that were created in conjunction with the earlier elections and appointments. As part of its annual designation of elective directorships in the past two years, the Finance Board has included updated versions of the matrices to reflect the revised board structure for each Bank for that year, and expects to continue to do so in the future. Because the matrices in Appendix A relate to prior years, and have been superseded by more current versions, it no longer is necessary to include them in the regulations.

### III. Regulatory Flexibility Act

The final rule would apply only to the Finance Board and the Banks, which do not come within the meaning of small entities as defined in the Regulatory Flexibility Act (RFA). See 5 U.S.C. 601(6). Therefore, in accordance with section 605(b) of the RFA, 5 U.S.C. 605(b), the Finance Board hereby certifies that this proposed rule, if promulgated as a final rule, will not have a significant economic effect on a substantial number of small entities.

### IV. Paperwork Reduction Act

The Finance Board does not propose to amend current forms that potential appointed directors must complete. Thus, the proposed rule does not contain any collections of information pursuant to the Paperwork Reduction Act of 1995. See 33 U.S.C. 3501 *et seq.* Accordingly, the Finance Board has not submitted any information to the Office of Management and Budget for review.

### Lists of Subjects in 12 CFR Part 915

Banks, Banking, Conflict of interests, Elections, Ethical conduct, Federal home loan banks, Financial Disclosure, Reporting and recordkeeping requirements.

For the reasons stated in the preamble, the Finance Board proposes to amend title 12 CFR part 915 as follows:

### PART 915—BANK DIRECTOR ELIGIBILITY, APPOINTMENT AND ELECTIONS

1. The authority citation for part 915 continues to read as follows:

**Authority:** 12 U.S.C. 1422a(a)(3), 1422b(a), 1426, 1427, 1432.

2. Revise § 915.10 by adding a new sentence to the end of paragraph (a) and by deleting the second sentence of paragraph (b) to read as follows:

### § 915.10 Selection of appointed directors.

(a) \* \* \* In making its selections, the Finance Board will provide that at least one appointed director serving on the board of directors of each Bank for the coming year, either appointed in past selections or appointed in current selections, has a background or experience that reasonably demonstrates that the director possesses a strong understanding of the risks, including the interest rate risk, market risk and options risk, arising from a Bank's activities.

\* \* \* \* \*

### Appendix A to Part 915—[Removed]

3. Appendix A to part 915 is removed.

Dated: March 12, 2003.

By the Board of Directors of the Federal Housing Finance Board.

**John T. Korsmo,**  
Chairman.

[FR Doc. 03-6595 Filed 3-18-03; 8:45 am]

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## DEPARTMENT OF TRANSPORTATION

### Federal Aviation Administration

#### 14 CFR Part 39

[Docket No. 2000-NM-120-AD]

RIN 2120-AA64

### Airworthiness Directives; Empresa Brasileira de Aeronautica S.A. (EMBRAER) Model EMB-120 Series Airplanes

**AGENCY:** Federal Aviation Administration, DOT.

**ACTION:** Supplemental notice of proposed rulemaking; reopening of comment period.

**SUMMARY:** This document revises an earlier proposed airworthiness directive (AD), applicable to all EMBRAER Model EMB-120 series airplanes, that would have required replacing certain existing potentiometers with recently manufactured potentiometers, modifying the flexible couplers that attach the shafts of the potentiometers to the shafts of the primary flight controls, performing repetitive calibration tests of the potentiometers and obtaining repetitive readouts of the flight data recorder (FDR), and reporting the results to the FAA. This new action proposes initial and repetitive testing of the potentiometers to detect noisy signals and replacement of only those with noisy signals. The actions specified by this new proposed AD are intended to prevent the potentiometers that provide