

# 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 900, 932, and 955

[No. 2003-21]

RIN 3069-AB18

#### Federal Home Loan Bank Acquired Member Assets

**AGENCY:** Federal Housing Finance Board.

**ACTION:** Withdrawal of proposed rule.

**SUMMARY:** The Federal Housing Finance Board (Finance Board) is withdrawing its proposed rule that would have amended its Acquired Member Assets (AMA) regulation to place greater responsibility with each Federal Home Loan Bank (Bank) to manage its AMA program, subject to ongoing supervisory review by the Finance Board.

**FOR FURTHER INFORMATION CONTACT:** Scott Smith, Associate Director, Office of Supervision; [smiths@fhfb.gov](mailto:smiths@fhfb.gov) or (202) 408-2991; Sharon Like, Senior Attorney Advisor, Office of General Counsel, [likes@fhfb.gov](mailto:likes@fhfb.gov) or (202) 408-2930, Federal Housing Finance Board, 1777 F Street, NW., Washington, DC 20006.

#### SUPPLEMENTARY INFORMATION:

##### I. Background

The Finance Board proposed a rule in the **Federal Register** of July 1, 2003, to amend its AMA regulation to place greater responsibility with each Bank to manage its AMA program, subject to ongoing supervisory review by the Finance Board. See 68 FR 39027 (July 1, 2003). The proposed rule would have maintained the core provisions in the current rule relating to safety and soundness, but would have been less prescriptive and simpler than the current rule. The proposed rule also would have codified the authority of a Bank to acquire as AMA instruments that are created by Bank members or housing associates in cooperation with a Bank and that represent an interest in loans that individually could qualify as AMA. The proposed rule provided for a

60-day public comment period, which closed September 2, 2003.

##### II. Reasons for Withdrawal of the Proposed Rule

All twelve Banks as well as other interested parties have requested that the Finance Board extend the original 60-day public comment period for an additional 90 days, to provide additional time to submit comments on a number of complex issues raised by the proposed rule.

The Finance Board recognizes that the proposed rule could better reflect the intent of the Finance Board if it were written with greater clarity, and that a greater degree of clarity would facilitate the submission of informed and meaningful comments to the Finance Board. The Finance Board believes that the rulemaking process would be better advanced by the withdrawal of the proposed rule and subsequent issuance of a revised proposed rule, than by a simple extension of the comment period. Therefore, the Finance Board is withdrawing the proposed rule. The Finance Board will retain the comment letters received on the proposed rule and will incorporate them into the public record of a subsequent proposed rule addressing the AMA regulation.

##### List of Subjects

12 CFR Part 900

Credit, Federal home loan banks, Reporting and recordkeeping requirements.

12 CFR Part 932

Capital, Credit, Federal home loan banks, Housing, Investments, Reporting and recordkeeping requirements.

12 CFR Part 955

Credit, Federal home loan banks, Housing, Reporting and recordkeeping requirements.

Accordingly, the Finance Board hereby withdraws the Proposed Rule published at 68 FR 39027 on July 1, 2003.

Dated: September 11, 2003.

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

**John T. Korsmo,**  
Chairman.

[FR Doc. 03-23762 Filed 9-16-03; 8:45 am]

**BILLING CODE 6725-01-P**

## FEDERAL HOUSING FINANCE BOARD

### 12 CFR Parts 900 and 998

[No. 2003-19]

RIN 3069-AB22

#### Registration by Each Federal Home Loan Bank of a Class of Its Securities Under the Securities Exchange Act of 1934

**AGENCY:** Federal Housing Finance Board.

**ACTION:** Proposed regulation.

**SUMMARY:** The Federal Housing Finance Board (Finance Board) is proposing to adopt a regulation requiring each Federal Home Loan Bank (Bank) to prepare and make public certain disclosures relating to its business and financial condition. Each Bank will satisfy these disclosure requirements by voluntarily registering a class of its securities with the Securities and Exchange Commission (SEC) under the provisions of section 12(g) of the Securities Exchange Act of 1934. By voluntarily registering a class of its securities, each Bank will subject itself to the 1934 Act's periodic disclosure regime, as interpreted and administered by the SEC.

**DATES:** Written comments on the proposed regulation must be received by January 15, 2004.

**ADDRESSES:** Send comments by electronic mail to [comments@fhfb.gov](mailto:comments@fhfb.gov), by facsimile to 202/408-2530, or by regular mail to the Federal Housing Finance Board, 1777 F Street, NW., Washington, DC 20006, Attn: Public Comments.

**FOR FURTHER INFORMATION CONTACT:** Arnold Intrater, General Counsel, 202/408-2536, [intratera@fhfb.gov](mailto:intratera@fhfb.gov), or John P. Foley, Senior Attorney-Advisor, Office of General Counsel, 202/408-2932, [foleyj@fhfb.gov](mailto:foleyj@fhfb.gov), or Joseph A. McKenzie, Deputy Chief Economist, Office of Supervision, 202/408-2845, [mckenziej@fhfb.gov](mailto:mckenziej@fhfb.gov), Federal Housing Finance Board, 1777 F Street, NW., Washington, DC 20006.

#### SUPPLEMENTARY INFORMATION:

##### I. Comments

The Finance Board invites comments on all aspects of the proposed regulation, including legal and policy considerations, and assessments of the

proposed regulation's impact on access to capital markets, cost of funds, and other costs to the Bank System. The Finance Board will take all comments into consideration before issuing a final regulation. For copies of public comments, contact Karen Rogers, Executive Secretary, by e-mail at [rogersk@fhfb.gov](mailto:rogersk@fhfb.gov), by facsimile at 202/408-2530, or by telephone at 202/408-2910.

## II. Statutory and Regulatory Background

### A. The Banks

The 12 Banks are privately owned "government-sponsored enterprises" (GSEs) organized under the authority of the Federal Home Loan Bank Act (Bank Act)<sup>1</sup> to support the financing of housing and community lending by their members.<sup>2</sup> The Bank Act requires the Banks to adopt a cooperative structure. Eligible financial institutions (principally, depository institutions) may become members of a Bank if they satisfy certain statutory and regulatory criteria and purchase a specified amount of a Bank's capital stock.<sup>3</sup> Only Bank members may own Bank capital stock and share in Bank profits. Only Bank members, and certain eligible housing associates (such as State housing finance agencies), may borrow from or use other Bank products and services.<sup>4</sup>

### B. The Finance Board

The Banks' regulator is the Finance Board, an independent agency in the executive branch of the U.S. government. The Finance Board's primary duty is to ensure that the Banks operate in a financially safe and sound manner. To the extent consistent with that duty, the Finance Board also must supervise the Banks, ensure that the Banks carry out their housing finance mission, and ensure that the Banks remain adequately capitalized and able to raise funds in the capital markets.<sup>5</sup>

### C. Gramm-Leach-Bliley Act

The Gramm-Leach-Bliley Act<sup>6</sup> (GLB Act) required the Banks to adopt new risk-based capital structures. On January 30, 2001, the Finance Board published a final regulation implementing new capital structure requirements for the Banks.<sup>7</sup> As of July 18, 2002, the Finance Board had approved a new capital plan

for each of the Banks. To date, six Banks have implemented their capital plans and are operating under new capital structures. Until a Bank implements its capital plan, its capital structure is governed by the Finance Board's pre-GLB Act regulations.

### D. Bank System Securities

**Consolidated Obligations.** The Bank Act authorizes the individual Banks to issue debt securities, subject to Finance Board regulation.<sup>8</sup> While the Finance Board has not adopted regulations permitting the issuance of debt securities by individual Banks and no Bank has ever individually issued debt securities, the Finance Board has adopted regulations authorizing the Office of Finance (OF), a joint office of the Banks, as agent for the Banks, to offer, issue and service consolidated obligations on which the Banks are jointly and severally liable.<sup>9</sup> The Banks, together with the OF, comprise the Bank System. The Banks' GSE status enables the OF to issue consolidated obligations at favorable rates. The Banks pass along their funding advantage to their members—and ultimately to consumers—by providing advances (secured loans) and other financial services to their members at lower rates than the members generally could obtain elsewhere. At June 30, 2003, the Bank System had \$507 billion of consolidated obligation bonds (maturity of one year or more) and \$134 billion of consolidated obligation discount notes (maturity of less than one year) outstanding.

**Equity Securities.** Banks that have implemented new capital plans may issue Class A stock or Class B stock (and each class may have subclasses). Shares of both Class A stock and Class B stock are issued at a par value of \$100 per share. Shares of Class A stock are redeemable in cash on six-months written notice to a Bank. Shares of Class B stock are redeemable in cash on five-years written notice to a Bank. The redemption price for shares of both Class A stock and Class B stock is \$100 per share.<sup>10</sup> Banks that have not implemented new capital plans issue only one class of capital stock redeemable by the Bank on six-months notice. This capital stock is also purchased by the member and redeemed

by the Bank at a par value of \$100 per share. Each Bank may also repurchase outstanding shares of any type of Bank capital stock at a price of \$100 per share in certain circumstances.

### E. 1933 Act and 1934 Act Exemptions Applicable to Bank Securities

**1933 Act Exemption for Bank Equity and Debt Securities.** Equity securities issued by individual Banks to their members and debt securities issued by the OF as agent for the Banks to public investors are exempt from the registration requirements of the Securities Act of 1933 (1933 Act)<sup>11</sup> because the Banks are persons "controlled or supervised by and acting as an instrumentality of the Government of the United States pursuant to authority granted by the Congress of the United States."<sup>12</sup>

**1934 Act Exemption for Bank Debt Securities.** Debt securities issued by the OF as agent for the Banks are exempt from the registration requirements of the Securities Exchange Act of 1934 (1934 Act).<sup>13</sup> Sections 3(a)(12)(A) and 3(a)(42)(B) of the 1934 Act designate as exempt securities, "government securities," including "securities which are issued or guaranteed by corporations in which the United States has a direct or indirect interest and which are designated by the Secretary of the Treasury for exemption as necessary or appropriate in the public interest or for the protection of investors."<sup>14</sup> In Release 34-1168 dated April 28, 1937, the SEC announced the Secretary of the Treasury's designation for exemption of those securities issued by the Federal Home Loan Bank Board (the predecessor agency to the Finance Board) or by the Banks under the authority of Section 11 of the Bank Act. The consolidated obligations issued by the OF as agent for the Banks are issued under the authority of Section 11(a) of the Bank Act.

**Bank Equity Securities under the 1934 Act.** The Secretary of the Treasury has not designated Bank equity securities for exemption under the 1934 Act.

**Basis for 1933 Act and 1934 Act Exemptions.** The Banks' 1933 Act and 1934 Act exemptions rest on a presumption, and the Finance Board's supervisory and examination authority over the Banks includes a responsibility to ensure, that the securities activities of government instrumentalities are conducted in the public interest and for the protection of investors. This obligation was reinforced when

<sup>1</sup> 12 U.S.C. 1421 *et seq.*

<sup>2</sup> 12 U.S.C. 1422a(a)(3)(B)(ii), 1430(i), (j).

<sup>3</sup> 12 U.S.C. 1424, 1426.

<sup>4</sup> 12 U.S.C. 1426, 1430, 1430b.

<sup>5</sup> 12 U.S.C. 1422a(a)(3)(A), (B).

<sup>6</sup> Pub. L. 106-102 (1999).

<sup>7</sup> 66 FR 8262 (January 30, 2001).

<sup>8</sup> 12 U.S.C. 1431(a).

<sup>9</sup> 12 CFR 985.3(a). Prior to 2001, the OF performed the same functions for the Finance Board, which had issued consolidated obligations on behalf of the Banks pursuant to Section 11(c) of the Bank Act. The Finance Board no longer issues consolidated obligations on behalf of the Banks under Section 11(c).

<sup>10</sup> 12 CFR 931.1.

<sup>11</sup> 15 U.S.C. 77a *et seq.*

<sup>12</sup> 15 U.S.C. 77c(a)(2).

<sup>13</sup> 15 U.S.C. 78a *et seq.*

<sup>14</sup> 15 U.S.C. 78c(a)(42)(B).

Congress assigned to the Finance Board the statutory duty "to ensure that the Federal Home Loan Banks remain adequately capitalized and able to raise funds in the capital markets."<sup>15</sup>

#### *F. Current Bank System Securities Disclosure*

*Bank System Combined Reports.* Subject to certain specifically enumerated exceptions, Finance Board regulations currently require the OF to prepare combined annual and quarterly financial reports for the Bank System (Bank System Combined Reports) in scope, form and content generally consistent with the requirements of SEC Regulation S-K and Regulation S-X.<sup>16</sup> Under these Finance Board regulations, the OF prepares an annual and three quarterly Bank System Combined Reports. The annual report portion of the Bank System Combined Reports contains: (i) Audited balance sheets for the prior two years and income statements for the prior three years; (ii) a discussion and analysis of the Bank System's financial condition and results of operations; and (iii) supplemental information describing the Bank System's business and senior Bank System management. The quarterly report portions of the Bank System Combined Reports contain unaudited interim financial statements with accompanying discussion and analysis of the Bank System's financial condition and results of operations.

*Bank Annual and Quarterly Reports.* Finance Board regulations also require that any financial statements contained in an annual or quarterly financial report issued by an individual Bank be consistent in both form and content with the financial statements presented in the Bank System Combined Reports.<sup>17</sup> Except for this obligation, there is no Finance Board regulatory requirement that individual Bank annual or quarterly reports be in scope, form and content generally consistent with the requirements of SEC Regulation S-K and Regulation S-X. Each Bank currently prepares and distributes to its members an annual report containing audited financial statements and a management discussion and analysis section. Each Bank also distributes brief quarterly or semi-annual summary financial reports to its members.

*Additional OF 1933 Act Disclosure Documents.* The OF distributes various offering documents to investors in connection with issuances of Bank

System consolidated obligations. These OF disclosure documents are modeled on the disclosure documents that are prepared by issuers of investment grade debt who issue debt securities under cover of a Form S-3 shelf registration statement.

#### *G. Reassessment of the Securities Disclosure of the Individual Banks*

##### *Bank System's Need to Remain Adequately Capitalized*

Comprehensive, fully transparent securities disclosure is necessary if the Banks are to maintain the long-term confidence of the investment community and the national rating agencies. The rules and regulations that form the 1934 Act's periodic disclosure system establish the best practices standard for disclosure by U.S. corporations. The SEC has the resources and the expertise to ensure that individual Bank disclosure documents meet this standard. Congress established the SEC in 1934 to enforce the newly enacted federal securities laws, to promote stability in the financial markets and to protect investors. For the last 69 years, the SEC has been in the forefront of investor protection and has significantly contributed to the integrity of the United States securities markets.

Because of the SEC's expertise and resources and the credibility that SEC review brings to a registrant's financial statements, the Finance Board has concluded that the Bank System's ability to access the capital markets may be better secured if each of the 12 Banks voluntarily registers a class of its securities with the SEC under Section 12(g) of the 1934 Act, thereby subjecting the Banks to the SEC's periodic disclosure system, as interpreted and administered by the SEC.

The Finance Board's proposal that each Bank should be required to voluntarily register a class of its securities under Section 12(g) of the 1934 Act also rests on the fact that Bank accounting and financial statement reporting issues have become significantly more complex in recent years because of new Financial Accounting Standards Board (FASB) statements. In particular, Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, has given rise to interpretative complexities. These more complex FASB financial statement reporting requirements necessitate more comprehensive and detailed disclosure by individual Banks. The SEC staff has the extensive accounting expertise required to review this Bank disclosure.

Finally, the Finance Board recognizes that Fannie Mae has voluntarily registered its common stock with the SEC under Section 12(g) of the 1934 Act and that Freddie Mac has agreed to do so upon the completion of its restatement of its financial statements. There may be merit in having the core securities disclosures of all of the housing GSEs overseen by the same disclosure regulator.

*Finance Board Will Continue to Oversee the Bank System Combined Reports in Consultation with the SEC.* The OF is a joint office of the 12 Banks and is not a separate legal entity. Thus, the OF would not fit into a 1934 Act registration regime that is premised on registrants being separate legal entities with distinct managements. Moreover, the Bank System Combined Reports combine rather than consolidate financial information from each of the 12 Banks. If each of the 12 Banks subjects itself to the SEC's integrated disclosure regime, this will make available to the OF and the Finance Board 1934 Act periodic disclosure documents prepared by each Bank that have been reviewed by SEC staff. With this foundation, the Finance Board believes that its extensive knowledge of the Bank System and the Bank System Combined Reports make the Finance Board the appropriate regulator to continue to supervise the Bank System Combined Report's disclosure. In carrying out this responsibility, the Finance Board will consult with the SEC.

### **III. Analysis of Proposed Regulation**

#### *A. Section 900.3 Definitions*

The proposed regulation would amend § 900.3<sup>18</sup> to include the following three additional definitions of terms related to securities disclosure that are used in the proposed regulation: "GLB Act," "SEC," and "1934 Act."

#### *B. Section 998.1 General*

##### *1. Section 998.1(a) Purpose*

This section describes the purpose of part 998, which is to require each Bank to prepare and submit the financial and other disclosures required by the Finance Board by voluntarily registering a class of its securities with the SEC under Section 12(g) of the 1934 Act. The voluntary registration of a class of the securities of each Bank will bring each Bank under the 1934 Act periodic disclosure regime, as interpreted and administered by the SEC.

<sup>18</sup> 12 CFR 900.3.

<sup>15</sup> 12 U.S.C. 1422a(a)(3)(B)(iii).

<sup>16</sup> 12 CFR 985.6(b)(1).

<sup>17</sup> 12 CFR 989.4.

2. Section 998.1(b) No Limitation on Safety and Soundness Authority and Access to Capital Market Responsibilities

This section would state that the proposed regulation would not limit or restrict the Finance Board's ability carry out its responsibilities under the Bank Act including its responsibility to act under its safety and soundness authority to regulate the Banks, including conducting examinations, requiring reports and disclosures, and enforcing compliance with applicable laws, rules and regulations. This section would not alter the Finance Board's responsibility to ensure the Bank System's continued access to the capital markets.

C. Section 998.2 Bank Periodic Disclosures

1. Section 998.2(a) Periodic Disclosures

This section would require each Bank to prepare and make public disclosures relating to its financial condition, results of operations, trends or uncertainties affecting its business, and its management's assessment of its business and financial condition that includes supporting financial information and certifications.

2. Section 998.2(b) Satisfaction of Bank Periodic Disclosure Requirement

This section would require each Bank to satisfy the disclosure requirements of proposed § 998.2(a) by subjecting itself to the 1934 Act's periodic disclosure regime and preparing an annual report, quarterly reports, current reports and such other materials as may be required under the SEC's rules and regulations, including SEC and SEC staff interpretations and rules governing audited financial statements.

3. Section 998.2(c) Voluntary Registration of a Class of the Securities of Each of the Banks with the SEC

This section would establish a mechanism for each Bank to subject itself to the SEC's 1934 Act period disclosure regime. That mechanism would be the voluntary registration of a class of the securities of each Bank with the SEC under Section 12(g) of the 1934 Act. Each Bank would have to agree to voluntarily register a class of its securities with the SEC under Section 12(g) of the 1934 Act within 120 days of the adoption of this proposed regulation as a final regulation.

4. Section 998.2(e) Submission of Disclosures to Finance Board

This section would require each Bank to provide to the Finance Board on a

concurrent basis copies of all disclosure documents filed with the SEC.

IV. Regulatory Flexibility Act

The proposed regulation, if adopted as a final regulation, will apply only to the Banks, which do not come within the meaning of "small entities," as defined in the Regulatory Flexibility Act (RFA).<sup>19</sup> Therefore, in accordance with section 605(b) of the RFA,<sup>20</sup> the Finance Board hereby certifies that the proposed regulation, if promulgated as a final regulation, will not have a significant economic impact on a substantial number of small entities.

V. Paperwork Reduction Act

The proposed regulation does not contain any collections of information pursuant to the Paperwork Reduction Act of 1995.<sup>21</sup> Consequently, the Finance Board has not submitted any information to the Office of Management and Budget for review.

List of Subjects in 12 CFR Parts 900 and 998

Federal home loan banks, Reporting and recordkeeping requirements, and Securities disclosure.

Accordingly, the Finance Board hereby proposes to amend title 12, chapter IX, of the *Code of Federal Regulations*, as follows:

PART 900—GENERAL DEFINITIONS APPLYING TO ALL FINANCE BOARD REGULATIONS

1. The authority citation for part 900 continues to read as follows:

**Authority:** 12 U.S.C. 1422b(a).

2. Amend § 900.3 by adding the following three definitions in alphabetical order:

§ 900.3 Terms relating to other entities and concepts used throughout 12 CFR chapter IX.

\* \* \* \* \*

*GLB Act* means the Gramm-Leach-Bliley Act (Pub. L. 106-102 (1999)).

\* \* \* \* \*

*SEC* means the U.S. Securities and Exchange Commission.

\* \* \* \* \*

*1934 Act* means the Securities Exchange Act of 1934 (15 U.S.C. 78a *et seq.*).

\* \* \* \* \*

3. Add Subchapter M (part 998) to title 12, chapter IX, to read as follows:

<sup>19</sup> 5 U.S.C. 601(6).

<sup>20</sup> 5 U.S.C. 605(b).

<sup>21</sup> 44 U.S.C. 3501 *et seq.*

Subchapter M—Bank System Securities Disclosure

PART 998—VOLUNTARY REGISTRATION OF A CLASS OF SECURITIES OF EACH BANK UNDER SECTION 12(g) OF THE 1934 ACT

Sec.

998.1 General.

998.2 Bank periodic disclosures.

**Authority:** 12 U.S.C. 1422b(a), 1422a(a)(3)(A), 1422a(a)(3)(B)(iii).

§ 998.1 General.

(a) *Purpose.* The purpose of this part is to require each Bank to prepare and publicly distribute certain financial and other disclosures. The required disclosures are those that would be provided by 1934 Act registrants subject to the 1934 Act's periodic disclosure regime, as interpreted and administered by the SEC.

(b) *No limitation on safety and soundness authority or access to capital markets responsibility.* This part does not limit or restrict the Finance Board's ability carry out its responsibilities under the Act including its responsibility to act under its safety and soundness authority to regulate the Banks, including conducting examinations, requiring reports and disclosures, and enforcing compliance with applicable laws, rules and regulations. This part shall not alter the Finance Board's responsibility to ensure the Bank System's continued access to the capital markets.

§ 998.2 Bank periodic disclosures.

(a) *Periodic disclosures.* Each Bank shall prepare and make public disclosures relating to its financial condition, results of operations, trends or uncertainties affecting its business, and its management's assessment of its business and financial condition that includes supporting financial information and certifications.

(b) *Satisfaction of Bank periodic disclosure requirement.* Each Bank shall satisfy the disclosure requirements of paragraph (a) of this section by subjecting itself to the 1934 Act's periodic disclosure regime and preparing an annual report, quarterly reports, current reports and such other materials as may be required under the SEC's rules and regulations, including SEC and SEC staff interpretations and rules governing audited financial statements.

(c) *Requirement to voluntarily register a class of securities.* Each Bank shall subject itself to the 1934 Act's periodic disclosure regime by agreeing to voluntarily register a class of its securities with the SEC under Section

12(g) of the 1934 Act (15 U.S.C. 781(g)) within 120 days of the adoption of this regulation.

(d) *Submission of disclosures to Finance Board.* Unless otherwise required by the Finance Board, each Bank shall provide to the Finance Board on a concurrent basis copies of all disclosure documents filed with the SEC.

Dated: September 11, 2003.

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

**John T. Korsmo,**  
Chairman.

[FR Doc. 03-23761 Filed 9-16-03; 8:45 am]

BILLING CODE 6725-01-P

## DEPARTMENT OF TRANSPORTATION

### Federal Aviation Administration

#### 14 CFR Part 39

[Docket No. 2003-NE-21-AD]

RIN 2120-AA64

#### **Airworthiness Directives; International Aero Engines AG (IAE) V2522-A5, V2524-A5, V2527-A5, V2527E-A5, V2527M-A5, V2530-A5, and V2533-A5 Turbofan Engines**

**AGENCY:** Federal Aviation Administration (FAA), DOT.

**ACTION:** Notice of proposed rulemaking (NPRM).

**SUMMARY:** The FAA proposes to supersede an existing airworthiness directive (AD) for certain IAE V2522-A5, V2524-A5, V2527-A5, V2527E-A5, V2527M-A5, V2530-A5, and V2533-A5 turbofan engines. That AD currently requires initial and repetitive inspections of the master magnetic chip detector (MCD) or the No. 1, 2, 3 bearing chamber MCD. This proposed AD would require the MCD inspections, and would require replacing certain No. 3 bearings and replacing or recoating certain high pressure compressor (HPC) stubshaft assemblies as mandatory terminating actions to the repetitive MCD inspections. This proposed AD is prompted by the development of a terminating action to the repetitive MCD inspections. We are proposing this AD to prevent failure of the No. 3 bearing, which could result in in-flight shutdown (IFSD) and smoke in the cockpit and cabin.

**DATES:** We must receive any comments on this proposed AD by November 17, 2003.

**ADDRESSES:** Use one of the following addresses to submit comments on this proposed AD:

- By mail: Federal Aviation Administration (FAA), New England Region, Office of the Regional Counsel, Attention: Rules Docket No. 2003-NE-21-AD, 12 New England Executive Park, Burlington, MA 01803-5299.

- By fax: (781) 238-7055.

- By e-mail: [9-ane-adcomment@faa.gov](mailto:9-ane-adcomment@faa.gov).

You can get the service information identified in this proposed AD from International Aero Engines AG, 400 Main Street, East Hartford, CT 06108; telephone: (860) 565-5515; fax: (860) 565-5510.

You may examine the AD docket at the FAA, New England Region, Office of the Regional Counsel, 12 New England Executive Park, Burlington, MA.

#### **FOR FURTHER INFORMATION CONTACT:**

James Rosa, Aerospace Engineer, Engine Certification Office, FAA, Engine and Propeller Directorate, 12 New England Executive Park, Burlington, MA 01803; telephone (781) 238-7152; fax (781) 238-7199.

#### **SUPPLEMENTARY INFORMATION:**

##### **Comments Invited**

We invite you to submit any written relevant data, views, or arguments regarding this proposal. Send your comments to an address listed under **ADDRESSES**. Include "AD Docket No. 2003-NE-21-AD" in the subject line of your comments. If you want us to acknowledge receipt of your mailed comments, send us a self-addressed, stamped postcard with the docket number written on it; we will date-stamp your postcard and mail it back to you. We specifically invite comments on the overall regulatory, economic, environmental, and energy aspects of the proposed AD. If a person contacts us verbally, and that contact relates to a substantive part of this proposed AD, we will summarize the contact and place the summary in the docket. We will consider all comments received by the closing date and may amend the proposed AD in light of those comments.

We are reviewing the writing style we currently use in regulatory documents. We are interested in your comments on whether the style of this document is clear, and your suggestions to improve the clarity of our communications that affect you. You may get more information about plain language at <http://www.faa.gov/language> and <http://www.plainlanguage.gov>.

##### **Examining the AD Docket**

You may examine the AD Docket (including any comments and service information), by appointment, between

8 a.m. and 4:30 p.m., Monday through Friday, except Federal holidays. See **ADDRESSES** for the location.

#### **Discussion**

On May 29, 2003, the FAA issued AD 2003-11-23, Amendment 39-13183 (68 FR 33621, June 5, 2003). That AD requires initial and repetitive inspections of the master MCD or the No. 1, 2, 3 bearing chamber MCD for contamination, and if the contamination is bearing material, replacement of the engine before further flight. That AD was prompted by 19 failures of the No. 3 bearing attributed to ball spalling and race fracture. Of the 19 failures, seven resulted in in-flight shutdowns (IFSDs) and 12 resulted in unscheduled engine removals (UERs). Of the seven IFSDs, two were associated with smoke in the cabin or cockpit. The smoke is a result of the ball spalling and race fracture of failed No. 3 bearings, P/N 2A1165, and occurs when there is hard particle contamination in the oil system. The contamination is caused by the release of coating particles on HPC stubshafts with low-energy plasma coating. The problem exists on certain No. 3 bearings, P/N 2A1165 that are less tolerant to damage from this contamination. This AD is prompted by the addition of a mandatory terminating action to the repetitive chip detector inspections. That condition, if not corrected, could result in failure of the No. 3 bearing, which could result in IFSD and smoke in the cockpit and cabin.

#### **Actions Since AD 2003-11-23 Was Issued**

Since that AD was issued, IAE has issued Service Bulletin No. V2500-ENG-72-0459, dated June 27, 2003, that provides procedures for replacing certain No. 3 bearings, P/N 2A1165, and replacing or recoating certain HPC stubshafts that have a low-energy plasma coating with HPC stubshafts that have a high-energy plasma coating.

#### **FAA's Determination and Requirements of the Proposed AD**

We have evaluated all pertinent information and identified an unsafe condition that is likely to exist or develop on other products of this same type design. Therefore, we are proposing this AD, which would require:

- Initial inspection of the master MCD and the No. 1, 2, 3 bearing chamber MCD within 125 hours time-in-service (TIS) after the effective date of this AD,
- Repetitive inspections of the master MCD and the No. 1, 2, 3 bearing