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FEDERAL HOUSING FINANCE BOARD CHAIRMAN'S STATEMENT BEFORE ADOPTION OF FINAL RULE REQUIRING SEC REGISTRATION

Following are prepared remarks by Chairman Alicia R. Castaneda prior to the Federal Housing Finance Board's adoption of a final rule requiring the Federal Home Loan Banks to register with the Securities Exchange Commission under the Securities Exchange Act of 1934.

When I became Chairman of the Finance Board in April, the issue of SEC registration had already been discussed at great length. As the presentation just noted, the Finance Board by a 4-0 vote adopted the proposed rule last September, and the 120-day comment period expired on January 15th of this year.

This time has been put to good use. The Finance Board's staff and directors have studied the issue, considered the implications, and laid a solid foundation for action.

That foundation includes the draft final rule, memorandum from the Office of Supervision and legal opinion from the Office of General Counsel we have before us today. It also includes other materials Staff previously has provided the Finance Board to aid in its consideration of these issues, including a briefing book on background materials relating to various disclosure initiatives and their role in supervision, and a binder of similar materials regarding the federal securities laws and issues relating to enhanced Bank disclosures.

So, the record my colleagues and I now have before us is extensive, comprehensive and more than sufficient for our purposes.

The Federal Home Loan Banks, their member institutions, and others who supplied comments raised a number of important issues, and I believe their input assisted the Finance Board staff and directors in considering this matter in a complete fashion, and I am grateful for their contributions.

Let me now turn to the issue at hand.

It has always seemed to me that there were two parts to the Federal Housing Finance Board's consideration of this issue.

The first is the fundamental policy question: Should the Finance Board require – and if so, how – enhanced financial and operational disclosure from the Federal Home Loan Banks to provide a more complete, more transparent, description of these large and important institutions on a basis comparable to other Government Sponsored Enterprises and sophisticated financial institutions?

Next, assuming we answer that policy question with a “yes,” the second question is a legal one: Whether the Federal Housing Finance Board has the authority to require that enhanced disclosure through registration with the Securities and Exchange Commission.

The essential power of the Federal Housing Finance Board derives from the Federal Home Loan Bank Act, which requires the Board to ensure that the Banks remain safe and sound and able to raise funds in the capital markets. The Office of General Counsel has concluded that under those Bank Act authorities, the Finance Board can indeed require the Federal Home Loan Banks to register with the SEC as the means to achieve those requirements.

I firmly believe that the analysis prepared by our legal staff leaves no reasonable doubt that the Finance Board has full statutory authority to take the action pending before us.

In evaluating financial disclosures for the Banks, I am guided by several straightforward policy considerations, but also by my own professional experience as a banker.

Transparency is a basic principle, of course. Given the size, growth and complexity of the Federal Home Loan Banks, it is simply a priority to move toward improved disclosures – disclosures that provide more information to member financial institutions, the public, and investors.

I also place a great deal of weight on safety and soundness. As the Basel Committee and many of our fellow regulators have concluded, enhanced disclosures provide important benefits for safety and soundness. Consistent and transparent disclosures help achieve market discipline because investors in that market know more about the risks faced by the financial institutions in question.

In short, stronger market discipline from enhanced disclosure will complement the safety and soundness oversight of the Finance Board's Office of Supervision.

Another very important issue concerns the proper role and responsibilities of Government Sponsored Enterprises, especially given the recent, heightened attention to corporate governance. The public, investors and policy-makers have become more demanding, and

rightfully so.

To meet those demands, I believe, the Federal Home Loan Banks should be recognized as world-class leaders in setting the standard for transparency, disclosure and corporate responsibility, especially because they are GSEs, created by Congress to serve a public purpose.

Finally, there is the central issue of comparability. Federal Home Loan Bank disclosures should be fully comparable to other entities with whom they compete for funds in the market – including GSEs and other large financial institutions.

Just as important, they must also be accepted as comparable by investors, regulators and the public.

I mentioned my banking experience earlier. I have been a fixed income trader; I have sold agency debt. And I know first-hand that if your disclosures are not comparable – if there's even a tiny doubt in the investor's mind that your disclosures are not on the same level than other issuers in the market – you've lost confidence. As an issuer, your spreads will widen, you will find yourself chasing the market, and your cost of funds will rise. Your ability to “raise funds in the capital markets” will be compromised, at the very least.

All of these considerations, as well as a review of past and current Federal Home Loan Bank disclosures, lead me to the obvious conclusion that enhanced disclosures are necessary as a fundamental policy and safety-and-soundness matter.

To maximize the benefits of full transparency, responsibility and comparability across institutions, there is simply no substitute for registration and disclosure under the Securities and Exchange Act of 1934.

I reached that answer based on the policy consideration I just outlined, and these facts:

The SEC is the disclosure regulator specifically created by Congress to be responsible for financial disclosures. It's what the SEC does.

The SEC is also the final arbiter of accounting and GAAP issues, with unparalleled expertise in reviewing complex financial disclosures, as well as extensive experience in reviewing disclosures from a diverse range of large and complex financial institutions.

Therefore, to best complement our safety and soundness oversight, to ensure continued access to capital markets, and to send a clear signal to the markets and public through the quality and comprehensiveness of Federal Home Loan Bank disclosures, I see no alternative to registration and disclosure with the SEC.

Now, some have argued that, over time, the Finance Board could review the enhanced disclosures with the same degree of competence and expertise as the SEC. That is

probably correct.

But no matter how good a job the Finance Board does, I believe the market would continue to perceive a qualitative distinction between a Finance Board-administered regime and an SEC-administered one. Such a perception could well disadvantage the Federal Home Loan Banks' access to capital markets.

At an even more fundamental level, our primary job at the Finance Board is safety and soundness. Our eyes and efforts are, and must remain, targeted toward our safety and soundness responsibility.

I believe this: Creating and administering a disclosure regime equivalent to the SEC's would be unwise – in that to do so would divert the Finance Board's staff and resources from our core safety and soundness objective. And, as made clear in the staff presentation, it is also unnecessary.

All these reasons explain why I intend to vote without any doubts for the regulation under consideration today.

I should note that the Federal Home Loan Banks raised a number of legitimate operational issues stemming from the unique nature of the System. Their input was invaluable both before and during the comment period, and I thank them.

Based on discussions Finance Board personnel have had with the Federal Home Loan Banks and the SEC, I understand that these operational issues have been appropriately resolved, either by the SEC through prospective no-action or other relief, or by the Finance Board. These issues, therefore, cannot fairly be said any longer to pose an obstacle to our adopting the pending regulation.

As for timing, I believe the regulation strikes an appropriate balance between providing a reasonable time – more than one year from today – for the Banks to have an effective registration in place, while also signaling to the market that the System is serious about improving its disclosures and securing the attendant benefits for the System and the public as soon as reasonably possible. We've given great consideration to these issues, and I think we have done a good job in balancing the competing concerns.

I also want to acknowledge the cooperation and assistance in this process from the SEC and its staff. They have been extremely helpful and responsive. I am fully confident that our agencies will work to resolve any issues that may arise following adoption of our regulation today.

We have traveled a long road on this issue, and I suppose that journey will continue with the actual process of registration. Still, today represents a significant milestone...for the Federal Housing Finance Board, the Federal Home Loan Banks...and the strength and transparency of this nation's housing finance system.

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