

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

**John T. Korsmo,**  
*Chairman.*

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## FEDERAL HOUSING FINANCE BOARD

### 12 CFR Part 985

[No. 2002-06]

RIN 3069-AB15

#### Office of Finance Board of Directors Meetings

**AGENCY:** Federal Housing Finance Board.

**ACTION:** Proposed rule.

**SUMMARY:** The Federal Housing Finance Board (Finance Board) is proposing to amend its regulation governing the minimum number of meetings that the board of directors of the Office of Finance must hold each year. The proposed rule would require at least six in-person meetings per year.

**DATES:** The Finance Board will consider written comments on the proposed rule that are received on or before April 8, 2002.

**ADDRESSES:** Send comments to: Elaine L. Baker, Secretary to the Board, by electronic mail at [bakere@fhfb.gov](mailto:bakere@fhfb.gov), or by regular mail to the Board, at the Federal Housing Finance Board, 1777 F Street, NW., Washington, DC 20006. Comments will be available for inspection at this address.

**FOR FURTHER INFORMATION CONTACT:** Patricia L. Sweeney, Office of Policy, Research and Analysis, 202/408-2872, [sweeneyp@fhfb.gov](mailto:sweeneyp@fhfb.gov), or Charlotte A. Reid, Special Counsel, Office of General Counsel, 202/408-2510, [reidc@fhfb.gov](mailto:reidc@fhfb.gov). Staff also can be reached by regular mail at the Federal Housing Finance Board, 1777 F Street, NW., Washington, DC 20006.

#### SUPPLEMENTARY INFORMATION:

##### I. Statutory and Regulatory Background

The Office of Finance (OF) is a joint office of the Federal Home Loan Banks (Banks) under section 2B of the Federal Home Loan Bank Act (Act). 12 U.S.C. 1422b(b)(2). The principal function of the OF is to offer, issue, and service consolidated obligations (COs) on which the Banks are jointly and severally liable. *See* 12 U.S.C. 1431(c). Until recently, OF issued debt as agent for the Finance Board, which was the statutory issuer of the debt under section 11(c) of the Act. On June 7, 2000, the Finance

Board authorized the Banks to issue COs under section 11(a) of the Act, 12 U.S.C. 1431(a), and authorized the OF to act as the agent of the Banks in issuing and servicing those COs. 65 FR 36290 (June 7, 2000). That regulatory action also broadened the OF's functions, expanded the duties, responsibilities, and powers of the OF board of directors (OF board), and set a minimum number of annual board meetings, as discussed below. As part of that rulemaking, the Finance Board assigned to the OF (as part of its debt issuance function) the responsibility for preparing the combined Federal Home Loan Bank System (Bank System) annual and quarterly financial reports.<sup>1</sup> 12 CFR 985.3(b), 985.6(b). The Finance Board also required the OF to obtain annual independent audits, gave OF the exclusive authority to select the independent outside auditor for the combined financial statements, and mandated that the Banks provide the necessary financial information within timeframes set by the Finance Board or the OF. *See* 12 CFR part 989.

Under the existing rules, the OF board is responsible for the oversight of every aspect of the operations of the OF and has broad powers to carry out its responsibilities. *See generally* 12 CFR part 985. In executing these duties, the OF board is subject to many of the same regulations that apply to the boards of directors of the Banks. In particular, the Finance Board rules require the OF board to conform to certain governance standards that apply to the boards of directors of the Banks under part 917 of the Finance Board regulations. *See* 12 CFR 985.8. One effect of that rule is that certain provisions in part 917 that apply to the Banks have been made equally applicable to the OF board. Specifically, the OF board must adopt bylaws in accordance with the requirements of section 917.10, and must establish policies for the management and operation of the OF, and approve a strategic business plan, in accordance with section 917.5. *See* 12 CFR 985.8(a)(2), (d)(1), (2). The OF board

<sup>1</sup> Previously, the Finance Board was responsible for preparing those financial reports. As amended, § 985.6(b) also sets forth the standards under which the OF is required to prepare Bank System annual and quarterly financial reports. The rule requires that the scope, form and content of the disclosures in such financial reports be consistent with the requirements of the applicable Securities Exchange Commission's (SEC) regulations governing various disclosure requirements, and be presented in accordance with the Statement Of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (FAS 131). The rule also requires that OF comply with the filing and distribution schedule applicable to corporate registrants under the Securities Exchange Act of 1934.

also must review, adopt, and monitor annual operating and capital budgets, in accordance with section 917.8 of the Finance Board regulations, *see* 12 CFR 985.8(d)(3), and must establish and perform the duties of an audit committee consistent with the requirements of § 917.7 and applicable SEC regulations governing audit reports. *See* 12 CFR 985.8(d)(4).

To discharge these duties the Finance Board constituted the OF board with three part-time members, each of whom is appointed by the Finance Board. The OF board includes two Bank presidents and one private citizen member, the latter of whom serves as the chair. *See* 12 CFR 985.8(a). Section 985.8(b) of the Finance Board regulations currently requires the OF board to hold no fewer than nine meetings annually. When the Finance Board adopted this requirement in June 2000, it established a minimum meeting requirement for the OF board, which previously had been required to meet quarterly. Although this action was independent of the Finance Board's regulatory treatment of the Banks, it was consistent with the regulations applicable to the Banks, which at that time were required to hold a minimum of nine meetings each year.<sup>2</sup> Since that time, the Finance Board has reduced the minimum number of board meeting required of the Banks to no fewer than six in-person board meetings annually, which reflects the actual operations practices of the Banks. 12 CFR 918.7(a).

##### II. Analysis of Proposed Rule

The OF board has asked the Finance Board to reduce the minimum number of meetings for the OF board, noting that "[t]he OF is a small organization whose business activities, while substantial in terms of debt issued, are largely routine in nature." The OF board also noted that its staff is experienced, and its operations are subject to periodic review by the examiners of the Finance Board, as well as by external auditors, and that the OF board has in place sufficient guidelines, policies, and procedures to monitor the day-to-day business affairs of the OF. Moreover, the OF board establishes the debt issuance parameters and ratifies debt issuance activity at regularly scheduled meetings, and the activities of the OF are closely monitored by various Bank officials through a variety of formal and ad hoc committees.

The OF board believes that it can continue to carry out its responsibilities while holding fewer meetings, without disruption of office functions or board

<sup>2</sup> *See* 65 FR 13663, 13664 (March 14, 2000), citing 64 FR 71275 (December 21, 1999).

oversight, noting that there are sufficient checks and balances in place to ensure continued adequate review by the OF board. For example, an internal audit function headed by the OF's director of internal audit and compliance performs regular reviews of the debt issuance and servicing functions, and reports to the OF board on a quarterly basis.

Additionally, the OF board reviews the OF's budget-to-actual expenses quarterly, and OF senior staff regularly reports on all actions taken under a delegation of authority. The OF board further notes that "[g]iven the stable nature of the OF's operation, the number of matters that must be brought for the Board's consideration at a formal meeting are limited." By regulation, the OF board serves as the audit committee, which meets each quarter, usually by telephone, to approve the publication of the quarterly and annual financial reports. These meetings generally do not coincide with the regular meeting of the board of directors.

The proposed rule would reduce the minimum number of meetings that the OF board must hold each year from nine to six in-person meetings. The Finance Board believes that reducing the minimum number of meetings would not affect the ability of the OF board to monitor the operations of the OF, or the ability of the Finance Board to oversee the OF. Moreover, the proposed rule would be consistent with earlier actions by the Finance Board to reduce to six the minimum number of annual in-person board meetings required of the Banks. The Finance Board's experience with the reduced number of meetings for the Banks suggests that the boards of directors have been able to discharge their oversight duties notwithstanding the lesser number of meetings.

In relation to this issue, the Finance Board has conducted a survey of large financial intermediaries regarding the number of board meetings held each year. The survey included 12 bank holding companies (with total assets ranging from \$11 billion to \$99 billion), 4 thrift holding companies (with total assets ranging from \$35 billion to \$186.5 billion), and the Fannie Mae and Freddie Mac (with total assets of \$575.2 billion and \$386.7 billion, respectively). The number of board meetings held each year by the boards of the bank holding companies ranged from 4 to 12 (averaging 7.33); for the thrift institution holding companies, the range was 4 to 9, (averaging 7.00) meetings annually. Fannie Mae held 8 board meetings in 1999, and Freddie Mac held five 5 meetings in that year.<sup>3</sup> That information

tends to confirm the view that requiring at least six in-person OF board meetings annually would be consistent with the practices at institutions of comparable size and with similar responsibilities.

The Finance Board believes that setting the minimum number of in-person board meetings at six per year strikes an appropriate balance between the needs of the Finance Board as the safety and soundness regulator of the Banks and the desire of the OF board to determine the optimal number of meetings to hold each year. The Finance Board further expects that notwithstanding the proposed reduction of the minimum number of meetings to be held each year, the OF board of directors will continue to maintain its level of oversight of the OF and its operations.

### III. Regulatory Flexibility Act

The proposed rule would apply only to the OF, which does 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 significant economic impact on a substantial number of small entities under the RFA.

### Paperwork Reduction Act

This 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.* Therefore, the Finance Board has not submitted any information to the Office of Management and Budget for review.

### List of Subjects in 12 CFR Part 985

Federal Home Loan Banks.

Accordingly, the Finance Board hereby proposes to amend part 985, title 12, chapter IX, Code of Federal Regulations, as follows:

### PART 985—THE OFFICE OF FINANCE

1. The authority citation for part 985 continues to read as follows:

**Authority:** 12 U.S.C. 1422b(a)(1).

2. Revise § 985.8(b) to read as follows:

#### § 985.8 General duties of the OF board of directors.

\* \* \* \* \*

(b) *Meetings and quorum.* The OF board of directors shall conduct its business by majority vote of its members at meetings convened in accordance with its bylaws, and shall hold no fewer than six in-person meetings annually. Due notice shall be given to the Finance

Board by the Chair prior to each meeting. A quorum, for purposes of meetings of the OF board of directors, shall be not less than two members.

\* \* \* \* \*

Dated: February 13, 2002.

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

**John T. Korsmo,**  
*Chairman.*

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## POSTAL SERVICE

### 39 CFR Part 111

#### Proposed Domestic Mail Manual Changes To Clarify the Method Used To Determine Postal Zones

**AGENCY:** Postal Service.

**ACTION:** Proposed Rule.

**SUMMARY:** The Postal Service is proposing to amend Domestic Mail Manual (DMM) G030, Postal Zones, to clarify the language describing the method used to determine postal zones. This change also removes redundant eligibility information in G030 that is currently in the DMM eligibility standards for Parcel Post and Periodicals mail. Effective with the implementation date of the Docket No. R2001-1 omnibus rate case, the Postal Service will update zone chart coordinates for all 3-digit ZIP Code prefixes in L005, Column A, that do not match the corresponding coordinates for L005, Column B.

**DATES:** Comments must be received on or before April 8, 2002.

**ADDRESSES:** Mail written comments to Manager, National Customer Support Center (NCSC), ATTN: J. Stefaniak, 1735 North Lynn Street, Room 3025, Arlington VA 22201-6038 or submit via fax to 703-292-4058, ATTN: J. Stefaniak. Copies of all written comments will be available for inspection and photocopying between 9 a.m. and 4 p.m., Monday through Friday, in the Library, Postal Service Headquarters, 475 L'Enfant Plaza SW., Washington, DC 20260-1540.

**FOR FURTHER INFORMATION CONTACT:** Angie White, 901-681-4525.

**SUPPLEMENTARY INFORMATION:** The Postal Service is proposing to clarify the language in DMM G030 which describes the method used to determine postal zones 1 through 8. This clarification does not propose to change the method used to calculate postal zones.

Postal rates for certain subclasses of mail are based on the weight of the

<sup>3</sup> See 66 FR 24263, 24264 (May 14, 2001).