



Alfred M. Pollard, General Counsel  
Attention: Comments/RIN 2590-AA39  
Federal Housing Finance Agency  
400 Seventh Street S.W., Eighth Floor  
Washington, DC 20024

January 12, 2015

RE: Notice of Proposed Rulemaking; request for comments  
Members of Federal Home Loan Banks (RIN 2590-AA39)

Dear Mr. Pollard:

We appreciate the opportunity to comment on the Federal Housing Finance Agency's Notice of Proposed Rulemaking; request for comments, RIN 2590-AA39 Members of Federal Home Loan Banks (the "Proposal").

The Proposal includes revisions to the Federal Housing Finance Agency's (FHFA) regulations governing the Federal Home Loan Bank (Bank) membership, including proposed requirements relating to ongoing compliance with percentage of assets held in home mortgage loans and residential mortgage loans. Included below are our observations and recommendations relating to the following topics: auditor certification and institutions not subject to external audits.

#### **Auditor certification**

In § 1263.11(b), the Proposal specifies sources of data for both the "makes long-term home mortgage loans" and "10 percent" asset ratio calculations required under the proposed § 1263.9(b) and § 1263.10(b), respectively. When data from the three most recently filed year-end regulatory financial reports do not show the institution to be in compliance with these requirements, the Bank would be permitted to accept a written certification from the institution's external auditor stating the actual amount of the relevant assets held by the institution as of the end of any or all of the three most recently completed calendar years and may use the actual amount of the relevant assets held by the institution in performing the required calculation for that institution.

The content of the certification from the institution's external auditor and the nature and extent of procedures to be performed are not clearly defined within the Proposal. Further, a "certification" is not discussed within the professional standards of the American Institute of Certified Public Accountants (AICPA) or the Public Company Accounting Oversight Board (PCAOB). We recommend that the FHFA describe the nature of the procedures to be performed by the external auditor in the context of the professional services that could be performed by the auditor of the financial statements versus as a "certification". In our view, further clarification in this area is necessary in order to ensure adherence with professional standards that govern services provided by independent auditors and consistency in procedures and reporting.



We have included the following examples for your consideration. Given that the Proposal involves the institution's external auditor, we have included examples where information prepared by the institution (a schedule of relevant assets<sup>1</sup>) is reconciled to the institutions audited financial statements.

- The auditor could consider the schedule of relevant assets as supplemental information to the financial statements and could audit such calculation in the context of the financial statements taken as a whole in accordance with AICPA AU-C 725 or PCAOB AU 551, as applicable.
- The auditor could audit the schedule of relevant assets as stand alone accounts of the institution's financial statements, applying a separately established materiality level, in accordance with AICPA AU-C 805 or PCAOB AU 623, as applicable.
- The auditor could report in accordance with AT 201, *Agreed-Upon Procedures Engagements*, where the procedures performed might consist of comparing amounts per the schedule of relevant assets held by the institution to information contained in audited financial statements and recalculating the mathematical accuracy of management's calculations. Note that the FHFA would need to establish or otherwise agree to the procedures to be performed.

#### **Institutions not subject to external audits**

Part 363 of the Federal Deposit Insurance Corporation's requires covered institutions with consolidated total assets of \$500 million or more to engage an independent public accountant to audit and report on its annual financial statements in accordance with applicable auditing standards. While other regulatory requirements might require certain institutions that do not meet this threshold to engage an independent public accountant, not all institutions are required to have an external auditor. The Proposal should provide alternatives for those institutions that are not required to engage an external auditor.

We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that you may have. Please contact Derrick Stiebler (973-236-4904 or [derrick.t.stiebler@us.pwc.com](mailto:derrick.t.stiebler@us.pwc.com)) regarding our submission.

Sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

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<sup>1</sup> "home mortgage loan" and "residential mortgage loan" as defined on pages 6 through 7 of the Proposal are collectively referred to as the relevant assets