



ANDREW J. JETTER
President & CEO

May 26, 2006

By e-mail to comments@fhfb.gov

Federal Housing Finance Board
1625 Eye Street NW
Washington DC 20006

Attn: Public Comments

Re: Federal Housing Finance Board. Proposed Rule: Federal Home Loan Bank Director Elections. RIN Number 3069-AB31. Docket Number 2006-04.

Ladies and Gentlemen:

The Federal Home Loan Bank of Topeka is pleased to submit comments on the proposed rule on Federal Home Loan Bank Director Elections published in the *Federal Register* on April 18, 2006.

We welcome the Finance Board's effort to strengthen corporate governance of the FHLBanks by allowing the FHLBanks to provide valuable information on needed skills and experience to their members during the director election process. We agree with the Finance Board that to effectively exercise their duties to provide strong oversight, directors need to have the skills, education and experience necessary to understand the business of their FHLBank. As I stated in my testimony before the Finance Board at its hearing on corporate governance on February 10, 2004:

"I am not suggesting that every director must possess identical skills, education and experience, as it is vitally important to have diverse interests and backgrounds represented on a board of directors of a Federal Home Loan Bank. However, Federal Home Loan Banks are large, complex business organizations that require a combination of directors that jointly have the knowledge to understand the bank, both in terms of its operations as well as the management of the risks those operations create."

Consequently, we strongly support the Finance Board's proposal to allow each FHLBank to:

1. Conduct an annual assessment of the skills and experience possessed by members of its board and determine whether the capabilities of the board would be enhanced by the addition of persons with particular skills and experience;

2. In its annual director election notice to members requesting nominations, include a brief statement describing the skills and experience determined to be most likely to add strength to the board;
3. On the ballots for director elections, include a brief description of each nominee's skills and experience; and
4. Accompanying each ballot, enclose a brief statement describing the skills and experience determined to be most likely to add strength to the board.

While we strongly support these proposed improvements, we believe that the corporate governance of the FHLBanks would be further enhanced if Finance Board rules are revised to allow FHLBanks to follow the best practices for selection of directors utilized by companies registered with the Securities and Exchange Commission (SEC), to the maximum extent permissible under the Federal Home Loan Bank Act. Such companies' boards have nominating committees that identify, recruit and recommend for nomination, director candidates who they believe have the skills and experience most likely to add strength to their board. The board then nominates a slate of candidates who it believes would best provide the skills and experience needed for the board. The company's annual proxy statement mailed to its stockholders identifies the slate endorsed by management and the board, and also lists any other nominees.

Such practices would increase the likelihood that directors with the most appropriate skills and experience would be elected. All such practices are permissible under the Federal Home Loan Bank Act except that candidates are nominated by members and not by the FHLBank's board, and the Act prescribes unique voting procedures for the FHLBanks. The different nomination procedures are not an issue because any director candidate recruited by an FHLBank could be nominated by his or her institution. The only impediment to such practices is 12 CFR § 915.9 of the Finance Board rules, which prohibits most actions by directors (except in their personal capacities), officers, attorneys, employees and agents of the FHLBanks and the Finance Board to influence director elections.

As indicated in the Supplementary Information section of the proposed rule, the prohibitions of Section 915.9

“... for the most part, are carryovers from when the Federal Home Loan Bank Board regulated the Banks, before the Modernization Act and the devolvement of corporate governance responsibilities to the Banks.” (71 *Fed. Register* 19832, 19833 [April 18, 2006])

However, as a result of the enactment of the Federal Home Loan Bank System Modernization Act of 1999 (Title VI of the Gramm-Leach-Bliley Act):

“... the Finance Board devolved the last vestiges of corporate governance responsibilities, leaving those responsibilities with the Banks and their boards of directors.” (71 *Fed. Register* 19832, 19833 [April 18, 2006])

The most effective way that the Finance Board could assist the FHLBanks in carrying out their increased corporate governance responsibilities would be to delete all of the prohibitions of 12 CFR § 915.9 by deleting proposed 915.9(b) and (c), adopt the provisions of the proposed rule that add language to Sections 915.6, 915.8 and 915.9(a), and add a provision allowing the FHLBanks and their boards, individual directors, officers, attorneys, employees and agents to support and recommend the nomination and election of candidates of their choice for elective directorships. As I recommended in my 2004 testimony:

“[C]urrent directors and management need to be actively involved in the selection process. Boards and management should work cooperatively to identify needed skill sets that will enhance the performance of the board, identify individuals that possess such skill sets and then recommend those individuals for appointment or election.”

We believe that these revisions would greatly enhance the prospects for electing FHLBank directors who possess the skills, education and experience needed to add strength to the board and increase its effectiveness.

We have considered the argument that allowing FHLBank management to have a significant role in the director election process might decrease the independence of directors who were elected with the support of management. However, unlike most SEC-registered companies, in which company senior officers serve on the board and the CEO typically is the chairman of the board, management is prohibited from serving on the board of an FHLBank. All of the elected directors are independent of management. In addition, the Federal Home Loan Bank Act provides that the Finance Board shall appoint six directors, all of whom would clearly be independent of management. Consequently, the board of an FHLBank is highly independent and far less susceptible to undue management influence than the board of a typical SEC-registered company. Therefore, a potential decrease in director independence should not prevent the Finance Board from allowing the FHLBanks to essentially follow the best practices for selection of directors employed by SEC-registered companies.

Accordingly, we strongly support the proposed rule and recommend that the Finance Board further improve the corporate governance of the FHLBanks by removing the restrictive provisions of 12 CFR § 915.9 to allow FHLBank boards and management to become actively involved in identifying qualified candidates to serve as directors and recommending the election of those individuals to the FHLBank's members.

We appreciate the opportunity to comment on the proposed rule. If you have any questions or would like to discuss any of our comments, please call me at (785) 438-6001.

Sincerely,



Andrew J. Jetter