



March 28, 2003

The Committee of European Securities Regulators
11-13 avenue de Friedland
75008 Paris
France
Attention: Mr. Fabrice Demarigny

Re: Proposed New EU Prospectus Directive

Dear Mr. Demarigny:

The Office of Finance of the Federal Home Loan Banks (FHLBanks) is writing to express our concern at the proposals for a new EU Prospectus Directive. These proposals could have a significant adverse effect on our ability and willingness to continue to seek and maintain a listing of our debt securities in the European Union and, in some cases, on our underwriters' ability to sell our debt securities to certain EU institutional investors.

Background

Because of the unusual nature of the FHLBank System, some background about us may be useful and will help us explain why we are particularly concerned about the proposals. The twelve FHLBanks are government-sponsored enterprises of the United States of America. Each FHLBank is an independently managed cooperative, owned by its member financial institutions which represent the primary customer base for FHLBank services. In connection with their core businesses, the FHLBanks raise funds by selling debt securities in the capital markets and they provide those funds to their member financial institutions, thereby enhancing the availability of residential mortgage and community investment credit. The FHLBanks are subject to regulation by the Federal Housing Finance Board (Finance Board), an independent agency within the executive branch of the US Government.

The Finance Board requires each FHLBank to access the capital markets collectively through the Office of Finance of the FHLBanks. The Office of Finance serves as the agent of the twelve FHLBanks in connection with issuance and servicing of the consolidated bonds and consolidated discount notes issued by the FHLBanks. These consolidated obligations are the joint and several obligations of each FHLBank.

The FHLBanks are one of the largest issuers of debt in the world, with over US\$673 billion of consolidated obligations outstanding as of December 31, 2002. These consolidated obligations enjoy the highest credit ratings: for example, AAA/A-1 by Standard & Poor's and Aaa/P-1 by Moody's.

FHLBank obligations were first sold in the highly efficient "Eurobond" market in the mid-1980s. In 1994, we established a Global Debt Program to help gain access to investors in capital markets outside the U.S., including Europe, by facilitating the sale of multiple debt issues to our largely institutional investor base around the world. As part of this program, we maintain a Global Debt Program prospectus on file with the Luxembourg Stock Exchange, prepare pricing supplements, to facilitate specific offerings, and update these materials with periodic financial reports incorporated by reference, which are described further below. From time to time we list consolidated obligations issued under the Global Debt Program on the Luxembourg Stock Exchange in order to facilitate investment by our institutional investor base.

Our offerings outside the United States have not been directed to “retail” investors. Our underwriters are required to observe selling restrictions in the markets in which they operate, and that approach has proven satisfactory to us given our largely institutional investor base. Under our Global Debt Program, our standard minimum denomination is US\$10,000, although we increase the minimum denomination of a bond issue if it has complex features.

Our approach in the EU has served us well, because of the current level of regulatory flexibility to accommodate our circumstances. During the last two fiscal years, we issued approximately \$150 billion of consolidated obligations under the Global Debt Program, which were ultimately purchased largely by institutional investors, such as the European Central Bank, central banks of EU members for both their respective reserve and non-reserve portfolios, and others.

Our Current Disclosure Regime

We currently operate under a disclosure regime that has provided us extraordinary access to the capital markets while at the same time fostering transparent disclosure practices which have been flexible enough to accommodate our unique status. We are subject to disclosure requirements established by the Finance Board pursuant to its authority to regulate our activities under the Federal Home Loan Bank Act, as amended. By statute, the Finance Board is required to ensure that the FHLBanks remain adequately capitalized and able to raise funds in the capital markets, consistent with the Finance Board’s primary duty to ensure that the FHLBanks operate in a safe and sound manner.

Under Finance Board regulation, we are required to publish an annual financial report within 90 days of the end of each fiscal year and quarterly financial reports within 45 days of the end of the first three quarters of each fiscal year. The scope, form and content of our disclosures must generally be consistent with Regulation S-K and Regulation S-X disclosure requirements promulgated by the US Securities and Exchange Commission (SEC). Specific exceptions to the SEC rules have been approved by the Finance Board to reflect our unique circumstances described above.

The unusual structure of the FHLBank System has caused us to tailor the standard content of disclosure documents to our circumstances. As a convenience to investors, we prepare our financial statements on a “combined” basis, aggregating financial information provided by each FHLBank. The Financial Statements produced in support of our debt issuance programs are prepared in accordance with US generally accepted accounting principles (US GAAP), and are audited by a Big Four accounting firm in accordance with auditing standards generally acceptable in the US and government auditing standards issued by the Comptroller General of the US. The capital markets in Europe, the US and elsewhere have accepted this approach, and the Luxembourg Stock Exchange has been willing and able to accommodate us in a manner which has facilitated our access to capital markets outside the US, although our access is often confined to an institutional investor base due to selling restrictions imposed by local law in particular jurisdictions.

Concerns with EU Prospectus Directive Proposals

In summary, our main concerns with the proposed EU Prospectus Directive are as follows:

- The disclosure requirements are too detailed and inflexible. Because of our unusual structure, many rules applied to regular corporate issuers need to be adapted to fit us. Therefore, we request a continuation of the current policy and practice of allowing the Luxembourg Stock Exchange to adapt the rules as necessary or advisable, at least in

the context of highly-rated debt securities issued by government-sponsored enterprises such as the FHLBanks.

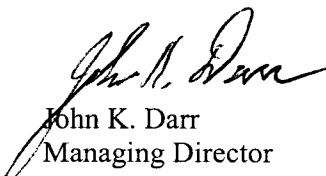
- Some of the disclosure requirements are inappropriate, if strictly interpreted. For example, the Directive and CESR's detailed proposals require "international accounting standards" accounts and international audit standards. US standards should be deemed to be equivalent because they provide comparable disclosure standards with which the European investor base is already comfortable. It would be very expensive and unwieldy for us to restate US GAAP numbers and it would be even more expensive for us to adopt additional auditing procedures, so clarification that US GAAP accounting and auditing standards are sufficient would be helpful.
- The proposed regime for wholesale securities is too restrictive. Institutional investors understand our disclosure, so we believe a more flexible regime is appropriate for issuers which target that market. However, harmonization of the definitions of institutional investors across the capital markets in the EU might create efficiencies and reduce risk, so long as they do not adversely affect the manner in which our market currently operates.
- The minimum denomination for conventional securities is too high. We customarily issue consolidated obligations with a US\$10,000 minimum denomination. When we issue debt, we need to be able to have it tradeable everywhere in the world on a consistent basis. We believe selling restrictions represent a better way to regulate risk here, as underwriters and dealers in our securities are subject to regulation and inspection by appropriate authorities.
- The explicit content requirements of periodic reports are problematic. We already report quarterly under US requirements, but on a different basis than the one proposed. Reworking our US reports would require significant effort, at considerable cost, and without any practical benefit to investors.

Conclusion

We are attaching a copy of the Finance Board's disclosure regulation, as well as copies of our most recent annual and quarterly reports. We believe our current practice gives equivalent disclosure to those proposed by CESR. We suggest that the EU authorities should consider recognizing this fact explicitly in their proposals.

We hope that you will consider these comments on the EU Prospectus Directive and that your favorable response to our general areas of concern will enable us to continue to gain access to the EU capital market in a manner consistent with our current practice. We believe the current market functions well for issuers like us, as well as for our investors. If we can be of any further assistance in helping you craft rules which will accommodate our participation in your market, then we would be pleased to provide you with assistance.

Sincerely,



John K. Darr
Managing Director

cc: Alexander Schaub, European Commission
Christopher Huhne, MEP