



**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**
WASHINGTON D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 27, 2007

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

Dear Mr. Feldman:

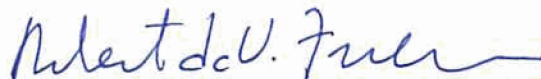
The Federal Deposit Insurance Corporation (FDIC) has requested comments on its Advance Notice of Proposed Rulemaking for a "Large-Bank Deposit Insurance Determination Modernization Proposal" (2006 ANPR). The Board of Governors of the Federal Reserve System (Board) welcomes the opportunity to comment on the 2006 ANPR.

The Board strongly supports the goal of the 2006 ANPR, which is to ensure that the largest and most complex insured depositories and the FDIC have in place data and other management systems that would enable the FDIC to promptly identify insured deposits and resolve the institution in an orderly manner that is least costly to the FDIC and to taxpayers. Moreover, the Board fully agrees that it is important for these systems to be in place and operationally tested before a large or complex institution becomes troubled.

The FDIC's proposal has considerable potential to significantly advance at least three important public policy objectives. The first of these is the principle that no bank is too big to fail. Prudent steps to enhance the FDIC's ability to distinguish quickly insured deposits from other liabilities and to ensure that uninsured depositors at failed large complex institutions have the realistic potential to suffer losses are core components of making this principle operationally feasible. Second, having these systems in place would promote market discipline, another important public policy objective, by enhancing the expectations of uninsured depositors that they may well suffer losses if an insured depository fails, regardless of its size or complexity. Lastly, the FDIC's proposal would help achieve Congress's clear directive in the Federal Deposit Insurance Corporation Improvement Act (1991) that, absent extraordinary circumstances, troubled insured depositories should be resolved in the manner that is likely to involve the least cost to the deposit insurance fund and, potentially, to taxpayers.

The Board commends the FDIC for having taken several steps, including extensive industry outreach, independent research, and the issuance of an earlier ANPR in 2005, to develop proposals that would achieve these important objectives in ways that are operationally feasible and take account of costs and operational burdens. Although the Board does not have comments on the specifics of the 2006 ANPR, we encourage the FDIC to continue to seek ways to minimize the proposal's potential costs to the banking industry and the public (including potential disruptions to the payments system) while simultaneously achieving the core objectives and public policy benefits of the proposal.

Very truly yours,

A handwritten signature in blue ink, reading "Robert deV. Frierson". The signature is fluid and cursive, with a long horizontal flourish at the end.

Robert deV. Frierson
Deputy Secretary of the Board