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

**October 28, 2009**

**Re: <u>RIN 3064-AD49 Prepaid Assessments</u>**

Dear Mr. Feldman,

We appreciate the opportunity to comment on behalf of our client, The Bessemer Group, Incorporated, on the FDIC's proposed rulemaking on Prepaid Assessments. The FDIC has been doing excellent work in dealing with the current economic situation, and we realize that some difficult steps need to be taken. Our comments are intended to address certain technical issues associated with the proposal and to respond to the specific questions contained in the FDIC proposing release.

The main point that we would make is that the mechanics of the prepaid assessments will have an inordinate impact upon banks, such as the Bessemer Trust companies, that have a significant securities custody and investment management business. Because of current market conditions, many prudent investors are holding substantial portions of their investable assets in cash and cash equivalents. For banks with large custody, trust and investment management businesses, this has resulted in a temporary, but large, increase in deposit balances during 2009. When market conditions fully stabilize and improve, we expect that investors will move more of their assets out of deposits and other cash equivalents and fully invest once again in stocks, bonds and other securities. As those investments occur, the deposit balances of these customers will return to pre-September 2008 levels.

Under the proposed FDIC prepaid assessment which uses a September 30, 2009 measuring date for a three-year prepayment of assessments on the deposit base, this temporary increase in deposit balances during 2009 will result in banks with large custody, investment management and trust operations prepaying an assessment that will be well in excess of three years. We suggest the FDIC consider methods of addressing this effect so that such banks are not required to prepay excessive amounts. Options to consider include allowing banks with substantial custody, investment management and trust businesses to use a three-year average deposit balance that includes the period prior to September 2008 to determine the balance used to calculate the three year prepaid assessment. In the alternative, allowing banks to sell prepaid assessments to other FDIC-insured banks could also help address the situation for those banks that will in effect be required to prepay well over three years' worth of future deposit insurance assessments.

In response to the request for comments on specific items listed as items 1-6 in Section V of the Notice), we provide the following:

1. **As an alternative to prepaid assessments, should the FDIC meet its liquidity needs by imposing one or more special assessments?**

No. Special assessments would likely have more immediate negative impact on depository trust company balance sheets. A zero risk weighted prepaid assessment should result in less onerous balance sheet impact.

2. **Should the FDIC pursue one or more of the other alternatives to the prepaid assessments, such as borrowing from Treasury or the FFB?**

No. Borrowings from Treasury or the FFB are not an appropriate funding mechanism, in part because the cost of borrowing will ultimately fall upon the insured institutions.

3. **Should prepaying assessments be voluntary rather than mandatory as currently contemplated, and, if so, how would the FDIC ensure that it receives sufficient cash to fund resolutions of failed insured depository institutions? (If prepayment of assessments were optional, the FDIC believes that it would affect the accounting treatment as a prepaid expense.)**

No. To insure uniformity of the burden and the accounting treatment, the assessments should be mandatory.

4. **For purposes of calculating the prepaid assessment, should the FDIC estimate the growth in the assessment base at a rate other than 5 percent for 2009, 2010, 2011 and 2012? Should the FDIC use different assessment rate assumptions than those proposed?**

Yes. As discussed above, for depository trust companies that have large custody, investment management and trust businesses, the 9/30/09 balances are artificially high on an historic basis, due to clients being uninvested in their traditional fiduciary account assets. There are two separate issues: First, rather than use the 9/30 deposit levels, for trust companies we would suggest a three-year average balance calculation to account for the spike in insured deposits in late 2008 and most of 2009. Unlike traditional depository institutions, with more stable deposit bases, trust banks would not expect these levels to continue into the future. Second, because we fully anticipate that deposit levels will fall for trust banks, any projected inflation from the base levels is likely unrealistic and unduly increases the prepaid assessment.

5. **As proposed, the FDIC would require prepayment of estimated assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012 based on its current liquidity needs projections. Should the FDIC require prepayment of estimated assessments over a different period or in installments?**

No. Three years appears to be a reasonable level to achieve the restored funding levels for the FDIC. Installment payments would raise the possibility of future defaults in payment if additional bank failures occur, increasing the future funding concerns.

6. **Should the FDIC's Amended Restoration Plan incorporate a provision requiring a special assessment or a temporarily higher assessment rate schedule that brings the reserve ratio back to a positive level within a specified time frame (one year or less) from January 2, 2011, when the FDIC projects industry earnings will have recovered?**

No. As the FDIC projects industry earning will have recovered, the long term reserve ratio should be addressed as part of the FDIC's ongoing review of its assessment rates and should be dealt with over an appropriate longer term, given the crisis in bank failures should ease in line with recovering earnings.

We appreciate the opportunity to submit comments on the prepaid assessments proposal.

Respectfully submitted,

David F. Freeman, Jr.