

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
United States
www.fdic.gov

Chris Barnard

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- **12 CFR Part 362**
- **RIN: 3064-AD88**
- **Permissible Investments for Federal and State Savings Associations:
Corporate Debt Securities**

Dear Sir,

Thank you for giving us the opportunity to comment on your notice of proposed rulemaking: Permissible Investments for Federal and State Savings Associations: Corporate Debt Securities.

You are proposing to amend the FDIC's regulations in accordance with the requirements of the Federal Deposit Insurance Act. Specifically, to prohibit any insured savings association from acquiring and retaining a corporate debt security unless it determines, prior to acquiring such security and periodically thereafter, that the issuer has adequate capacity to meet all financial commitments under the security for the projected life of the investment. An issuer would satisfy this requirement if, based on the assessment of the savings association, the issuer presents a low risk of default and is likely to make full and timely repayment of principal and interest.

I generally support the proposals concerning corporate debt securities, which replace a rules-based approach with a forward-looking, principles-based approach to determining standards of creditworthiness. I believe that it is appropriate that savings associations should not simply (or solely) rely on credit ratings from nationally recognised statistical rating organizations (NRSROs) when evaluating securities, but should take more responsibility in this arena in line with their fiduciary responsibilities.

Although I prefer the proposed principles-based approach over the previous rules-based approach, I am not convinced that the proposals are sufficient and complete in themselves to meet the statutory intent under the Dodd-Frank Act. Section 939A(b) thereunder states that:

Please note that the comments expressed herein are solely my personal views

“Each such agency shall modify any such regulations... to remove any reference to or requirement of reliance on credit ratings and to substitute in such regulations such standard of credit-worthiness as each respective agency shall determine as appropriate for such regulations”.

Proposed § 362.11(b)(1) states that an insured savings association shall not acquire or maintain a corporate debt security unless the savings association “prior to acquiring the security and periodically thereafter, determines that the issuer of the security has adequate capacity to meet all financial commitments under the security for the projected life of the investment”. I am not entirely convinced that “adequate capacity” is specific enough in order to represent a “standard or creditworthiness”, as such standard could be subjective, depend on the risk tolerance of the entity (entity-specific) and is possibly arbitrary.

Therefore in answer to your specific question 1: in the absence of further quantitative thresholds or guidance, I am not convinced that the proposed creditworthiness standard for corporate debt securities investments of federal and state savings associations satisfies the criterion that allows different banks or savings associations to assign the same or similar assessment of credit quality to the same or similar credit exposures.

I am commenting separately on the related proposed guidance¹ that sets forth supervisory expectations for due diligence conducted by a savings association in determining whether a corporate debt security is eligible for investment under the proposals.

Yours faithfully

C.R.B.

Chris Barnard

¹ See Guidance on Due Diligence Requirements for Savings Associations in Determining Whether a Corporate Debt Security Is Eligible for Investment, FDIC, 76 FR 78090 (December 15, 2011); and my comment letter thereon.