Association for Financial Professionals

Submitted via electronic mail

August 16, 2006

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

RE: RIN number 3064-AD03

Dear Mr. Feldman,

The Association for Financial Professionals (AFP) welcomes the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC) proposed rule regarding deposit insurance assessments. AFP's comments focus on the proposed elimination of the standard float deduction and potential alternatives and the use of average daily balances to calculate assessments.

The Association for Financial Professionals represents 15,000 finance and treasury professionals drawn generally from the Fortune 1000 and the largest middle market companies. AFP members manage their organization's banking relationships and have an active interest and a sizable stake in proposed changes to the deposit insurance assessment system. In their role as bank relationship managers, AFP members negotiate, monitor and approve for payment charges that their banks pass on to them for deposit insurance assessments.

Because banks pass the costs of deposit insurance onto corporate depositors, AFP member organizations currently contribute large sums to the deposit insurance system. It is important to understand that AFP member organizations currently pay these assessments based on ledger or uncollected balances (including checks in the course of collection), which customarily are well in excess of the insured $100,000 limit. That is, AFP member organizations pay premiums to their banks for balances that are not covered by FDIC insurance.

Eliminate the Float Deduction

The FDIC is proposing to eliminate the float deduction ". . . on the grounds that, based on available information the standard float deductions appear to be obsolete and arbitrary, actual float appears to be small and decreasing as a result of legal, technological and payment system changes, and requiring institutions to calculate actual float would appear to increase regulatory burden." As noted in the proposal, the float deduction is currently used in the calculation of assessments to reduce double counting and avoid charging assessments to banks based on balances created by the deposit of checks for which banks had not actually been paid.

Simply eliminating the float deduction would increase the assessment base for institutions with large percentages of demand deposits, a point conceded in the proposed rule. Banks currently employ the same methodology used by the FDIC to determine premium assessments when passing that premium assessment on to their corporate customers. An increase in the premiums for institutions with large demand deposits would result in an increase in the premiums paid by the banks corporate customers. It is worth repeating that in the current system, which uses ledger balances as the assessment base, corporate depositors are charged premiums on funds that are not insured. Eliminating the standard float deduction would exacerbate this inequity because assessments would be based on entire ledger balances, which include items such as checks that are still in the course of collection. Today, the standard float deduction provides a modest correction for these items.

Further, eliminating the current standard float deduction would not address the double counting problem. The FDIC notes in its proposed rule that float, while decreasing, still exists and that one reason for having the current standard float deduction is to reduce double counting that occurs as a result of float. In its current form, the proposal fails to address the double counting issue. Since float still exists, eliminating any deduction for float would increase the likelihood of double counting.

An additional concern we have with eliminating the standard float deduction centers around the possibility that the FDIC may be presented with a situation where it must pay dividends as required by the Federal Deposit Insurance Reform Conforming Amendments Act of 2005. Since enacted reforms will establish a more stable deposit insurance system, there is some likelihood that the FDIC will be required to pay dividends. As noted above, eliminating the standard float deduction would increase the premiums that corporate depositors pay. Dividends would be paid to the banks and not corporate depositors who significantly contributed to any excess in the Deposit Insurance Fund (DIF) via premiums that their bank passes through to them. This effectively results in a situation where corporate depositors are subsidizing potentially higher dividend payments to banks through the payment of premiums for deposits which are not covered by the fund.

For the reasons discussed above, AFP strongly opposes eliminating the standard float deduction without replacing it with a fairer, more equitable system such as using only collected balances as the basis for determining assessments.

In the proposal, the Board specifically asks for comments on two alternatives to eliminating the standard float deduction. The following are AFP's comments on those alternatives.

<u>Deduct Actual Float</u>

AFP has long argued that the FDIC should base assessments on actual collected balances rather than ledger balances. Deducting actual float satisfies this objective. This solution would accomplish the goals of eliminating the current "arbitrary and obsolete" float deduction and resolve the double counting problem. Thus, AFP urges the FDIC to adopt rules that allow for the deduction of actual float --base assessments on collected balances.

In the proposal, the FDIC argues that calculating actual float ". . . could create significant regulatory burden." Many institutions are already reporting cash items in the process of collection on Call Reports, which among other items includes checks in the process of collection (float). Therefore, it is unlikely that separating checks from other cash items would result in "significant regulatory burden." In fact, banks are already tracking and reporting actual float when they present collected and ledger balances as separate items on account analysis statements to their corporate customers.

Responding to the specific request for comment on defining actual float, AFP recommends that the FDIC adopt the definition currently used in Call Reports, as outlined in "Attachment A" of the proposed rule. This definition seems perfectly adequate and since banks and their corporate customers are already familiar with this definition, its use would preclude any unnecessary confusion.

Retain the Existing Float Deduction

AFP agrees that the current float deduction is arbitrary and obsolete. In fact, AFP has previously advocated replacing the current standard float deduction with a system that bases assessments on collected/insured balances. AFP therefore, does not support maintaining the current standard float deduction.

Assessments Calculated on Average Daily Balances

The FDIC has also proposed moving from using quarter end balances to using average daily balances to determine an institutions assessment base. In keeping with our long-standing view, AFP supports the proposal to move toward using average daily balances provided that collected balances determine the assessment base. Using the average daily collected balance method would eliminate the quarter-end avoidance problem that the proposed rule seeks to address. Secondly, using average daily balances would more accurately reflect the assessment base of any particular institution.

Summary of AFP Recommendations

- AFP urges the FDIC to adopt rules that allow for the deduction of actual float.
- AFP opposes the elimination of the standard float deduction without replacing it with a fairer, more equitable system such as using only collected balances as the basis for determining assessments.
- AFP does not support maintaining the current standard float deduction.
- AFP supports the move toward using average daily balances provided that collected balances determine the assessment base.

We appreciate the opportunity to present our views and recommendations. If you have any questions or need additional information, please contact Tom Santos, AFP's Director of Government Relations at 301.907.2862.

Sincerely,

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