



**Federal Home Loan Bank System
Combined Financial Statement/Combined Financial Report Q&A
November 14, 2011**

1) Who produces the Federal Home Loan Banks' combined financial reports?

The Federal Home Loan Banks (FHLBanks) Office of Finance is responsible for publishing the FHLBanks' combined financial reports. The Office of Finance was originally established by the FHLBanks' regulator, the Federal Housing Finance Agency (FHFA), to facilitate the issuance and servicing of the consolidated obligations of the FHLBanks.

2) Why does the Office of Finance produce the FHLBanks' combined financial reports?

The Office of Finance is required by FHFA regulation to publish the combined financial reports. The Office of Finance assumed this responsibility in 2001. Previously, these reports had been prepared by the Federal Housing Finance Board (FHFB), the former regulator of the FHLBanks. The Office of Finance does not have the same access to information about the FHLBanks as the FHFB had, or the FHFA has, in its capacity as regulator of the FHLBanks.

These reports are intended to provide investors in the consolidated obligations of the FHLBank system with a more convenient, combined view of the financial performance of the FHLBanks than they would otherwise receive by reviewing the reports of each FHLBank on a stand-alone basis only. The consolidated obligations are the joint and several obligations of the FHLBanks. This means that each individual FHLBank is responsible to the registered holders of these debt securities for the payment of principal and interest on all consolidated obligations issued by the FHLBanks.

3) Why does the combined financial report contain "combined" financial statements rather than "consolidated" financial statements?

Because of the structure of the FHLBank system, the Office of Finance does not prepare "consolidated" financial statements under generally accepted accounting principles in the United States (U.S. GAAP).

Under U.S. GAAP, consolidated financial statements are generally considered to be appropriate when a controlling financial interest rests directly or indirectly in one of the enterprises included in the consolidation. This is the case in the typical holding company structure, where there is a parent corporation that owns, directly or indirectly, one or more subsidiaries.

However, the FHLBanks do not have a parent company that controls each of the 12 FHLBanks. Instead, each of the FHLBanks is owned by its respective members and former members and is independently managed.

4) How does the Office of Finance produce the combined financial statements?

The Office of Finance produces the quarterly and year-end combined financial statements by adding the financial statements of the 12 FHLBanks and making appropriate combining adjustments.

The principal combining adjustments relate to (i) transfers of direct liability on consolidated bonds between FHLBanks, which are consolidated bonds issued on behalf of one FHLBank and transferred to and assumed by



another FHLBank; and (ii) purchases of consolidated obligations, which occur when these securities are issued on behalf of one FHLBank and purchased by another FHLBank in the open market. The independent auditor examines the combining adjustments in its audit of the combined financial statements.

5) Who oversees the preparation of the combined financial reports?

On May 3, 2010, the FHFA issued a final rule which reconstituted the Office of Finance Board of Directors (OF Board) and enhanced the responsibility of the Audit Committee of the OF Board for the combined financial reports. Under the new rule, which became effective on June 2, 2010, all twelve FHLBank Presidents are members of the OF Board, along with five independent directors. These five independent directors comprise the Audit Committee of the OF Board and under the new rule have more detailed responsibilities with respect to information that the FHLBanks provide to the OF for use in the combined financial reports. The Audit Committee's written charter is available on the Office of Finance website.

6) What does the Audit Committee of the OF Board do with respect to the combined financial statements?

Under the existing structure of the FHLBank system, the role of the Audit Committee of the OF Board is limited to a review of the combination aspects of the FHLBanks' combined financial statements and not the underlying financial statements of each FHLBank. The Audit Committee of the OF Board has no authority to verify independently the financial information submitted by each FHLBank.

Under the FHFA's final rule noted in the response to Question #5, the Audit Committee of the OF Board is responsible for ensuring that the FHLBanks adopt consistent accounting policies and procedures to the extent necessary for information submitted by the FHLBanks to the Office of Finance to be combined to create accurate and meaningful combined financial reports.

7) Who is responsible for the financial statements prepared by the FHLBanks?

Each FHLBank is responsible for the financial information it provides to the Office of Finance and the underlying data it provides to the Office of Finance for inclusion in the combined financial reports. Each FHLBank's Board of Directors and management are responsible for establishing its own accounting and financial reporting policies in accordance with U.S. GAAP. The FHLBanks' accounting and financial reporting policies and practices are not necessarily always identical because different policies and/or presentations are permitted under U.S. GAAP in certain circumstances. However, all 12 FHLBanks' accounting and financial reporting policies conform to U.S. GAAP.

Each FHLBank's Board of Directors has established an audit committee, whose members are required to meet express qualification and independence standards established by the FHFA and the audit committee independence requirements established by the Securities and Exchange Commission (SEC).

In the case of the FHLBanks, each FHLBank has registered a class of equity securities, and its periodic and current reports are filed with the SEC, as noted in the FHLBanks' combined financial reports.

8) How would hypothetical "consolidated" financial statements of the FHLBanks compare to the combined financial statements of the FHLBanks?

Because of the structure of the FHLBank system, the Office of Finance does not prepare "consolidated" financial statements under U.S. GAAP. Users should note that both types of financial statements present a view of a business that does not reflect the actual legal structure under which the business is conducted.



Consolidated financial statements, however, are generally considered to be appropriate when a controlling financial interest rests directly or indirectly in one of the enterprises included in the consolidation. The FHLBanks do not have a parent company that controls each of the 12 FHLBanks. Instead, each of the FHLBanks is owned by its respective members and former members and is independently managed.

9) Who regulates the Office of Finance and the FHLBanks' combined financial report?

The FHFA has regulatory oversight for the Office of Finance and is responsible for reviewing the FHLBanks' combined financial report.

10) Is the Office of Finance subject to registration with the SEC? Is the FHLBanks' combined financial report filed with the SEC?

The Office of Finance does not file the FHLBanks' combined financial report with the SEC. SEC registration requirements do not apply to the Office of Finance because it is not a holding company for the FHLBanks. Due to their decentralized structure, the FHLBanks do not have system-wide management or a single board of directors.

However, FHFA regulations require that the form and content of the FHLBanks' combined financial reports generally be consistent with SEC Regulations S-K and S-X, which outline parameters for non-financial and financial disclosures.

11) Are the Federal Home Loan Banks subject to Sarbanes-Oxley?

As SEC registrants, each of the FHLBanks is subject to Sarbanes-Oxley. All 12 FHLBanks are required to comply with certain reporting requirements of the Securities Exchange Act of 1934, as amended, and must file financial reports relating to their own financial condition and operating results.

12) Is the FHLBanks' combined financial report subject to Sarbanes-Oxley?

The Office of Finance's regulator, the FHFA, is responsible for reviewing the FHLBanks' combined financial report. As noted previously, the Office of Finance is not subject to SEC registration requirements, and it does not file the FHLBanks' combined financial reports with the SEC.

However, the Office of Finance has worked together with all 12 FHLBanks to implement many Sarbanes-Oxley-related best practices on a voluntary basis, such as:

- Establishing a Combined Financial Report Disclosure Committee responsible for formalizing and updating disclosure controls and procedures specific to preparation of the FHLBanks' combined financial reports;
- Developing a management certification process, which is modeled after Sarbanes-Oxley's Section 302 certification requirements, for each FHLBank's submission of financial data that is included in the FHLBanks' combined financial report; and
- Engaging the FHLBanks' and Office of Finance's independent auditors to assess each individual FHLBank's combined financial report financial data submissions through procedures modeled after Sarbanes-Oxley's Section 404 requirements.



In addition, some of the Office of Finance’s functions performed on behalf of the FHLBanks – primarily debt issuance and debt servicing – are reviewed in connection with the internal controls of each FHLBank, and the Office of Finance obtains an independent service auditor’s report related to the controls for these areas.

13) What are the principles used by the Office of Finance when preparing the FHLBanks’ combined financial reports?

The Office of Finance has developed a set of guiding principles for preparing the FHLBanks’ combined financial reports based on the unusual relationship between the Office of Finance and the FHLBanks, each of which is an SEC registrant. These principles include the following:

- The combined financial reports are primarily intended for investors in consolidated obligations, but the Office of Finance does consider the information needs of the FHLBank members and any other person who has an interest in understanding the operations, performance and financial condition of the FHLBanks on a combined basis;
- The combined financial reports present combined assets and liabilities as a matter of convenience to investors as required under Finance Agency Regulation; certain FHLBank-specific information will be included in the combined financial reports as a way to provide a better window into businesses, results of operations and financial conditions of the individual FHLBanks;
- The combined financial reports make it clear that there is no central or system-wide management of the FHLBanks, but the expanded FHLBank-specific information included in the combined financial reports will provide a reader with a better window into businesses, results of operations and financial conditions of the individual FHLBanks, thus enabling users to better evaluate and analyze the FHLBank system as a whole;
- Disclosures contained in the combined financial reports are generally based on SEC Regulations S-K and S-X per Finance Agency Regulation, subject to certain exceptions as defined by the Finance Agency;
- The combined financial reports do not include a system view from the Office of Finance’s perspective;
- Each FHLBank is responsible for the financial information it provides to the Office of Finance, and is responsible for establishing appropriate controls to ensure the information is provided timely and accurately;
- Each FHLBank is responsible for establishing accounting policies in accordance with U.S. GAAP and these policies may not be identical at each FHLBank;
- When drafting new disclosures, the Office of Finance and the FHLBanks will continue to be mindful that the reader needs to understand the information provided in the combined financial reports and will be diligent in ensuring that all new disclosures are written with a view toward the SEC’s “plain English” principle;
- The Office of Finance will continue to provide all material information about the FHLBanks taken as a whole, while also relying on information available from other sources, such as an individual FHLBank’s



SEC filings because that is where the management of an individual FHLBank describes its business, results of operations and financial condition; and

- The Office of Finance has voluntarily implemented Sarbanes-Oxley Section 302- and 404-like internal accounting and disclosure controls appropriate for the combination aspects of the combined financial report; the FHLBanks comply with SEC requirements, including those imposed by Sarbanes-Oxley.

Although the Office of Finance has the authority and responsibility to publish the FHLBanks' combined financial reports, it does not have any responsibility for the management of each individual FHLBank's operations.

14) How does the Office of Finance prepare the FHLBanks' combined financial report when it is possible that the individual FHLBanks may apply U.S. GAAP differently?

To promote the consistency required in the guidelines for the combined financial statements, the Office of Finance chairs the FHLBanks' Controllers' Standard Financial Statement Committee. This Committee focuses on driving consistency in the financial statements presented in the combined financial report and in each individual FHLBank's SEC Form 10-K. This Committee creates the annual combined financial report financial statement and footnotes guide that is used as a template by both the Office of Finance and the FHLBanks.

In addition, the Office of Finance and the FHLBanks have worked together to move voluntarily toward more consistency around the application of U.S. GAAP in quarterly and annual financial statements and footnotes, as well as in other financial disclosures. To further this effort, the FHLBanks' Controllers and the Office of Finance have created various working committees/groups, including the Controllers' working groups, which address matters related to:

- Accounting Policy/FASB and SEC Developments,
- Derivatives & Fair Value, and
- Accounting and Disclosure Consistency.

The Office of Finance also works with other senior executives of the FHLBanks, as necessary, when implementing new accounting guidance and/or disclosure requirements.

In the interest of providing transparency in the FHLBanks' combined financial report, the Office of Finance generally tries to disclose materially different accounting policies, practices, models and assumptions among the FHLBanks when individual FHLBank financial statements may differ from each other, as permitted under U.S. GAAP rules.

15) Have the Office of Finance and the FHLBanks taken any additional steps to further enhance consistency in the FHLBanks' combined financial report?

To further enhance combined financial reporting and to ensure greater consistency among all the FHLBanks in the determination of other-than-temporary-impairment (OTTI) and the fair value of mortgage-backed securities (MBS), the FHLBanks developed a uniform framework for completing their OTTI analyses and a fair value methodology for MBS.



The FHLBanks established an OTTI Governance Committee and an MBS Pricing Governance Committee – with representatives from all 12 FHLBanks and the Office of Finance – to enhance overall OTTI processes and to develop a common fair value methodology for MBS.

The OTTI Governance Committee is responsible for reviewing, commenting upon and approving the key modeling, interest rate and housing price assumptions and related modeling inputs and methodologies to be used by the FHLBanks to generate cash flow projections used in analyzing credit losses and determining OTTI each quarter for selected private-label residential MBS and home equity loans owned by the FHLBanks.

The MBS Pricing Governance Committee was responsible for developing a fair value methodology for MBS. All FHLBanks adopted this methodology for private-label MBS during 2009. In 2010, all FHLBanks adopted the common fair value methodology for all other MBS (U.S. obligations MBS and government-sponsored enterprise MBS). In adopting this common fair value methodology, each FHLBank remains responsible for the selection and application of its fair value methodology and the reasonableness of assumptions and inputs used.

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