To: rules-comments@sec.gov
**File Number 4-573**
Attention: Florence E. Harmon, Acting Secretary
Acting Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Dear Ms. Harmon:

The Federal Home Loan Bank of Chicago ("FHLBC") appreciates the opportunity to comment on the Security and Exchange Commission's (the "SEC") request for public comments related to the study to be conducted by the SEC under the Emergency Economic Stabilization Act of 2008 of "mark-to-market" accounting applicable to financial institutions, including depository institutions. Our comments will focus on areas in accounting where we believe the application of fair value accounting is inappropriate as well as the potential negative impact of such application.

Background Information—FHLBC

The Federal Home Loan Bank of Chicago is a federally chartered corporation and one of 12 Federal Home Loan Banks (the "FHLBs") that with the Office of Finance, comprise the Federal Home Loan Bank System (the "System"). The FHLBs are government-sponsored enterprises ("GSE") of the United States of America and were organized under the Federal Home Loan Bank Act of 1932, as amended ("FHLB Act"), in order to improve the availability of funds to support home ownership. Each FHLB operates as a separate entity with its own management, employees, and board of directors. Each FHLB is a member-owned cooperative with members from a specifically defined geographic district. Our defined geographic district consists of the states of Illinois and Wisconsin.

Other-Than-Temporary Impairment on Held-To-Maturity Investment Securities

We do not believe it is appropriate to use fair value accounting to measure other-than-temporary impairment for held-to-maturity investment securities. Specifically, we do not believe it meets the required accounting characteristic of representational faithfulness since it does not reflect management's intent and ability to hold such investment securities until maturity. If management has the intent and ability to hold such investment securities until maturity, recognition of a loss based on the fair value in a distressed market will and has resulted in a significant disparity between the accounting loss reported in our financial statements and the ultimate economic loss we expect to incur on investment securities incurring other-than-temporary impairment.

Additionally, we do not believe recognition of an other-than-temporary impairment loss based on fair value is consistent with historical cost accounting principles under generally accepted accounting principles. In particular, Statement of Financial Accounting Standards No. 114 (As Amended), "Accounting by Creditors for Impairment of a Loan - an amendment of FASB Statements No. 5 and 15," paragraph 13, only allows impairment to be recognized as a practical expedient or when repayment will only come from the collateral. Otherwise, creditors "...are required to measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate." Further, the recognition of other-than-temporary impairment at fair value for a financial asset carried at historical cost results in the recognition of possible future losses, which is inconsistent the March 10, 1999 Joint Interagency Letter to Financial Institutions (Joint Interagency Letter) issued by the SEC, Federal Deposit Insurance Corporation, Federal Reserve Board, Office of the Comptroller of the Currency, and Office of Thrift Supervision (the Agencies), in which, as stated in EITF Topic D-80, indicates "...the Agencies stated that they would encourage and support the FASB process of providing additional guidance regarding the accounting for allowances for loan losses. The *Viewpoints* article represents such additional guidance from the FASB staff. Also in the Joint Interagency Letter, the Agencies noted their support for the AICPA's Allowance for Loan Losses Task Force which is developing more specific guidance on techniques of measuring credit loss and **"how best to distinguish probable losses inherent in the portfolio as of the balance sheet date - the guidepost agreed to by the Agencies for reporting allowances in accordance with GAAP - from possible or future losses not inherent in the balance sheet as of that date."** We believe that impairment recognition for held-to-maturity investment securities should be governed by the same historical cost accounting principle that exists for loans carried at historical cost.

We believe that the application of fair value to determine other-than-temporary impairment for held-to-maturity investment securities exacerbates the current crisis in the financial markets. In particular, such other-than-temporary impairment write-downs understates the amount of capital held by a financial institution, which, may in turn result in other financial institutions not lending to them, which may force them to sell their investment securities at distressed prices to obtain funding, which ultimately distorts fair values reported by all financial institutions.

Fair Value of Available-for-Sale Investment Securities

We share the concern of the American Bankers Association ("ABA") that "...today's marketplace is not providing quality fair values, which results in lower qualify financial statements that we believe can be considered acceptable from the perspective of reliable accounting." Further, even if the fair values were representative of today's current distressed market, it may not be representative of what we would willingly sell our available-for-sale investment securities for in the market place. As a result, such fair value may not faithfully represent management's intent and ability to hold its available-for-sale investment securities until the market recovers. However, SFAS 157 does not provide any alternative accounting for these circumstances. In this regard, we believe that when management has the intent and ability to hold available-for-sale investment securities until the market recovers, then such investment securities should be valued at intrinsic or economic fair value rather than a fair value dictated by a distressed market. Such intent and ability can be demonstrated by a financial institution's pattern of sales in the market place – that is, if a financial institution sells such investment securities infrequently or only sells investment securities in a gain position, then we believe a financial institution should be able to use the intrinsic or economic fair value for accounting purposes.

FASB Project to Simplify Derivatives Accounting

Although it does not relate to this financial crisis, we believe it is important to note the FASB's project to simplify derivatives accounting. Specifically, the FASB's objective is to improve and simplify the financial reporting of hedging activities by limiting, except for certain exceptions, hedging activities to full fair value hedges. Such an approach would essentially eliminate the bifurcation-by-risk approach now allowed and would remove a valid and strategic business strategy to manage interest rate risk. We do not believe that fair value accounting should act as a deterrent to an entity's ability to manage its interest rate risk, and accordingly, we request the SEC to consider and ensure the ability of financial institutions to use a bifurcation-by-risk approach in hedge accounting as part of their fair value study.

We thank the SEC for its consideration of the FHLBC's views and welcome the opportunity to discuss this matter with the SEC and its staff. Please do not hesitate to contact me at 312-565-5714.

Sincerely,

Roger D. Lundstrom

Roger D. Lundstrom
Executive Vice President and Chief Financial Officer
Federal Home Loan Bank of Chicago