



Ms. Sheila C. Bair
Chairman,
Federal Deposit Insurance Corporation
550 17th St., NW
MB-6028
Washington, DC 20429

April 14, 2009

Dear Chairman Bair:

We (The American Academy of Actuaries' Risk Management and Financial Reporting Council) have great respect for the work of the FDIC, the protection it provides and its strong track record of intervening at an early enough point to successfully rehabilitate failed bank institutions. We are concerned, though, about information coming from a recent article in the *New York Times*. According to the article, the FDIC has agreed to guarantee billions of dollars in risky loans, but is assuming that those loans represent zero default risk. We are well aware that the press can fail to provide the best context or meaning behind specific quotes and statements and notice you have taken efforts to clarify the issue with the NY Times. We agree with you that even when the likelihood of an event is remote (such as a sharp national decline in the value of the US housing market), there is risk involved.

We do believe that key contributing factors to the current crisis were a lack of understanding (by both industry and regulators) of sound risk management principles as well as an inadequate respect for "remote risk events". As such we have prepared a discussion paper entitled "Concepts for Successful Regulation of Systemic Risk", which we would like to discuss further with you and your staff.

We are all dealing with the effects of financial institutions that freely took on excessive accumulation of risk for short-term reward, and thereby created long-term systemic risks resulting in failures. We believe that tools and methods developed for the analysis of the risks of short- and long-term guarantees in insurance may be useful for oversight purposes across the financial spectrum. The structure needed to prevent the U.S. financial system from experiencing future systemic crises will require assembling and analyzing critical information and having the discipline to take actions based on forward-looking risk-focused reports.

Sincerely,

James Rech
Vice President of the Risk Management and Financial Reporting Council
American Academy of Actuaries