THE FARM CREDIT COUNCIL

November 24, 2014

By Electronic Submission

Mr. Barry F. Mardock
Deputy Director
Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Mr. Robert deV. Frierson
Secretary
Board of Governors of the
Federal Reserve System
20th Street and
Constitution Avenue, NW
Washington, DC 20551

Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2590-AA45
Federal Housing Finance Agency
Constitution Center (OGC Eighth Floor)
400 7th Street, SW
Washington, DC 20024

Office of the Comptroller of the Currency
Legislative and Regulatory Activities Division
400 7th Street, SW, Suite 3E-218
Mail Stop 9W-11
Washington, DC 20219

Re: NPR - Margin and Capital Requirements for Covered Swap Entities; Comment Period

Ladies and Gentlemen:

On behalf of its members, the Farm Credit Council (the "Council") appreciates the opportunity to submit these further comments regarding the re-proposed margin and capital requirements (the "Re-Proposed Margin Rule") for swap dealers and major swap participants ("swap entities") issued by the Farm Credit Administration (the "FCA"), Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the Federal Housing Finance Agency (the "FHFA") (collectively, the "Prudential Regulators") under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank").

The Council is the national trade association for the Farm Credit System, a government instrumentality created "to accomplish the objective of improving the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses necessary for efficient farm operations." Today, the Farm Credit System comprises four banks and 77 associations, which together provide 40% of agricultural lending in the United States. To provide tailored financing products for farmers and farm-related businesses, Farm Credit System institutions rely on the safe use of derivatives to manage interest rate, liquidity, and balance sheet risk, primarily in the form of U.S. dollar, LIBOR-based interest rate swaps and caps. For example, Farm Credit System institutions use interest rate swaps to create synthetic floating rate funding at longer maturities and at a lower cost than investors would typically be willing to offer for outright floating rate issuance. Because derivatives allow the Farm Credit System to offer reliable, low-cost, and flexible funding to the farmers, ranchers, and rural cooperatives that borrow from, and cooperatively own, we appreciate the opportunity to submit these further comments on the Re-Proposed Margin Rule.

Overview of comments:

In general, the Council and its members are supportive of the Re-Proposed Margin Rule, but would like to submit the following comments and requests for clarification, for consideration by the Prudential Regulators.

Related to our comments and requests for clarifications, please consider these comments in addition to the Farm Credit Council's previous two comment letters (submitted on July 11, 2011 and November 26, 2012):

Variation Margin Compliance Date – Given the timing of the proposed December 1, 2015, implementation for the new Variation Margin requirements for Swap Entities and Financial End-users, as well as the number of ISDA agreements that will need to be modified, we would recommend the implementation of a phased approach similar to the Initial Margin requirements. This phased approach should allow for Swap Entities to put agreements in place first and then allow Financial End-users additional time and access to limited resources to review and negotiate the agreements.

Threshold for Collection of Initial Margin - The Farm Credit System recommends that the proposed $65 Million threshold for initial margin not be reduced in the final rule.

The CFTC enacted the Cooperative Exemption from mandatory clearing on August 22, 2013, which exempts most swaps that are executed for hedging and funding purposes by the Farm Credit System from mandatory clearing. The CFTC provided this exemption to the Farm Credit System based on its unique cooperative structure, in which the farmer, rancher and rural cooperative owner members of the System are non-financial end users that are entitled to the clearing exemption if they execute interest rate swaps on their own, but would be denied this exemption if they choose to execute swaps through their cooperatively owned institution to gain the benefits of size and centralized expertise. The CFTC determined that swaps covered by this exemption should be treated the same as swaps that are executed by commercial end users to enable the farmer, rancher and rural cooperative member owners of the System to allow them to avoid the cost of posting initial and variation margin when they choose to execute swaps for hedging purposes through their cooperative institution. Therefore, as a result of this exemption, the Farm Credit banks will generally elect to utilize swaps that meet the criteria of this exemption to avoid all of the costs associated with clearing.

The Farm Credit System believes that it is very important that the Prudential Regulators do not reduce the proposed initial margin threshold of $65 Million in the final rule, because the size of this threshold will enable the "commercial end user" farmer, rancher and rural cooperative member owners of the System to receive a significant portion of the cost savings that the CFTC intended for them to receive when it created the Cooperative Exemption from mandatory clearing.

<u>Requirement to Post & Collect Initial Margin Based on the Swap Entities Models</u> – Since the Financial End-users would be required to utilize the Swap Entities models, the rules should allow for a dispute resolution process. Further, the rule should allow for the negotiation of a dispute resolution process that would be acceptable to both parties.

<u>Limitation on the Type of Collateral for Variation Margin</u> – Because cash is the only acceptable collateral to meet Variation Margin calls, the re-proposed rule should be clarified to allow for the paying and receiving of interest on posted Variation Margin. Further, the rule should allow for the negotiation of acceptable indexes and collection processes that are acceptable to both parties.

<u>Scope of the Variation Margin Requirements</u> – The re-proposed rules should clarify whether non-cleared transactions which are excluded from the clearing requirements, such as foreign exchange forwards, would be required to be netted versus the swap subject to the variation margin requirements. Additionally, the rule should not limit counterparty's ability to include other transaction within the scope

of the ISDA agreement.

GSE Debt Obligations - GSE Debt Obligations (not under conservatorship) should not be classified with "Eligible Corporate Debt" in the Appendix B Haircut Table. GSE securities should have lower haircuts than corporate debt obligations and all GSE's should have equitable treatment.

Thank you again for your consideration. If you have any questions or we can provide other information, please do not hesitate to contact us.

Sincerely,

Robbie Boone
Vice President, Government Affairs
Farm Credit Council