March 18, 2019

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Mr. Robert E. Feldman
Executive Secretary
ATTN: Comments/RIN 3064-AE80
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, SW
Suite 3E-218
Washington, D.C. 20219

Re: Proposed Rule, Standardized Approach for Calculating the Exposure Amount of Derivative Contracts (Board Docket No. R-1629 and RIN 7100–AF22; FDIC RIN 3064–AE80; and OCC Docket ID OCC-2018-0030 and RIN 1557–AE44)

Dear Secretary Misback; Executive Secretary Feldman; and the Legislative and Regulatory Activities Division:

The National Milk Producers Federation (NMPF) submits the following comments in response to the proposed rulemaking issued by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency (together, the Agencies) regarding a new standardized approach for calculating the exposure amount of derivative contracts (SA-CCR) under the agencies' regulatory capital rules.

The National Milk Producers Federation (NMPF), established in 1916 and based in Arlington, VA, develops and carries out policies that advance the well-being of dairy producers and the cooperatives they own. The members of NMPF's cooperatives produce the majority of the U.S. milk supply, making NMPF the voice of dairy producers on Capitol Hill and with government agencies.

Our members are concerned that the proposed rule could result in greater and unnecessary costs while reducing the tools available to mitigate risk for their farmer-owners. US dairy cooperatives and their farmer members rely on a variety of derivatives to manage commodity price volatility impacting their businesses. These derivatives include over-the-counter swap transactions. Swaps are used to manage price risk in milk, dairy product, energy, feed and other price risks inherent in dairy farming and dairy production. As an example, dairy cooperatives use swaps, along with other mechanisms, to manage the price risk the cooperative takes on when offering fixed price forward contracts to their members in an effort to help their members manage their price risk and lock into a profit on their dairy farms.

Often, these swap transactions are unmargined swaps with counter parties – including large banks. Unmargined swaps provide a mechanism for dairy cooperatives to make the maximum use of their capital in supporting operations that derive sales and market expansion for their dairy farmer members.

We are concerned that the changes to capital requirements for large banks will effectively require cooperatives to post additional capital to support their price risk management practices – whether they are using large banks or other counterparties that are customers of large banks. This will divert capital away from dairy cooperative efforts to expand markets, undermining their business operations and strategies, and may impact the growth in marketing opportunities for dairy farmers.

Additional concerns include:

(A) undermining the clearing and margin exemptions granted to end-users by Congress;
(B) increasing end-users' costs of hedging;
(C) further consolidation of banking organizations acting as market-makers in commodity derivative contracts, thereby reducing end-users' risk management options; and
(D) less liquid and more volatile markets.

The rule, as proposed, may have the unintended consequence of reducing hedging transactions by dairy cooperatives and lead to more risk-taking instead of less.

We have reviewed and support the comments filed by the National Council of Farmer Cooperatives.

Sincerely,

JMulhern

Jim Mulhern
President & CEO