

Congress of the United States
Washington, DC 20515

October 13, 2023

The Honorable Michael S. Barr
Vice Chairman for Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, D.C. 20551

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street N.W.
Washington, D.C. 20429

Mr. Michael J. Hsu
Acting Comptroller of the Currency
The Office of the Comptroller of the Currency
400 7th Street S.W.
Washington, D.C. 20219

Dear Vice Chair Barr, Chairman Gruenberg, and Acting Comptroller Hsu:

We write to express our concerns regarding the recently issued joint regulatory proposal to implement the “Basel III Endgame” in the U.S. While this proposal is problematic in many regards, we write today specifically about the impacts to U.S. farmers given they will likely see higher costs in credit and in their ability to hedge market risk. There are several aspects of the Basel III Endgame that could increase the burden on the farming sector.

The Basel III Endgame will only allow an entity to be deemed investment grade and creditworthy if it is publicly listed. This could raise costs for the farming sector—given that most farms in the U.S. are small businesses, they are not publicly listed companies. In fact, new survey data shows that 77 percent of businesses are concerned that investment grade private companies will be treated less favorably than investment grade public companies under the new Basel III framework.¹

¹ Statement of the US Chamber of Commerce before the House Small Business Committee Subcommittee on Economic Growth, Tax, and Capital Access on “Enabling Success: Examining the Competitive Landscape for Small Businesses.” https://www.centerforcapitalmarkets.com/wp-content/uploads/2023/09/230912_Testimony_SmallBusinessCompetitiveLandscape_HouseSmallBusiness-Final.pdf?

1. What evidence have you provided and what quantitative analysis have you performed for why highly credit worthy but non-public companies, including farms, are less credit worthy just because they are not public companies?

In 2020, the United States Department of Agriculture (USDA) issued a report titled, *Farm Use of Futures, Options, and Marketing Contracts*. According to this report, "In 2016 ... over 47,000 farms used futures or options contracts to hedge price risks."² Additionally, the report adds, "nearly 12 percent of midsize farms (with sales of \$350,000 to \$999,999) and 17 percent of large farms (sales of \$1 million or more) used them. Among corn and soybean producers, 17 percent of midsize farms and 27 percent of large farms used futures contracts."³

The Basel III Endgame proposal introduces a new requirement to capture credit valuation adjustment (CVA) risk on derivative transactions. This new requirement penalizes most of the futures and options transactions that the farming industry relies on to hedge their risks. In fact, Congress, the CFTC, and even you, the federal banking regulators, have previously provided exemptions for derivative transactions with end users to encourage the farming industry to hedge their business risks without disrupting their operations or adding new costs.

2. Why do you think it is appropriate to now undermine those exemptions and increase the burden for the agriculture sector? If the European Union is to provide exemptions, should the U.S. also provide a comparable exemption in order to avoid unnecessary harm to the U.S. agriculture sector?

The Coalition of Derivative End Users submitted a letter in advance of your agencies' notice of the proposed rule implementing the Basel III Endgame because of their previous experience of the downstream impact of higher hedging costs arising from the Standardized Approach to Counterparty Credit Risk ("SA-CCR"). SA-CCR raised aggregate capital for banks by two to three percent, which resulted in significant downstream impacts.

3. By the agencies' estimate, the Basel III Endgame proposal will raise capital for the biggest banks by approximately 19 percent,⁴ almost ten-times greater than SA-CCR. Please provide your quantitative analysis for how this could increase hedging costs for the agriculture sector and how that could then further increase costs to consumers.

Farms and the agriculture sector are critical to the U.S. food supply and U.S. food security. The last two and a half years of inflation and rapidly rising interest rates are already placing additional burdens on U.S. farmers—they do not need further pressure placed on them by the inadequately understood downstream effects of this proposal. Thank you for your attention to this issue. We look forward to hearing from you on this important matter.

² Prager, Daniel, Christopher Burns, Sarah Tulman, and James MacDonald. 2020. *Farm Use of Futures, Options, and Marketing Contracts*, EIB-219, U.S. Department of Agriculture, Economic Research Service.

³ *Id.*

⁴ Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity, 88 Fed. Reg. 64028 at 494 n. 465 (proposed July 27, 2023).

Sincerely,



Monica De La Cruz
Member of Congress



Andy Barr
Member of Congress



Frank Lucas
Member of Congress



Pete Sessions
Member of Congress



Bill Posey
Member of Congress



Roger Williams
Member of Congress



Tom Emmer
Member of Congress



Barry Loudermilk
Member of Congress



Ralph Norman
Member of Congress



Dan Meuser
Member of Congress



Scott Fitzgerald
Member of Congress



Mike Flood
Member of Congress



Erin Houchin
Member of Congress

cc: The Honorable Jerome Powell, Chair, Board of Governors of the Federal Reserve System
The Honorable Philip Jefferson, Vice Chair, Board of Governors of the Federal Reserve System
The Honorable Michelle Bowman, Board of Governors of the Federal Reserve System
The Honorable Lisa Cook, Board of Governors of the Federal Reserve System
The Honorable Adriana Kugler, Board of Governors of the Federal Reserve System
The Honorable Christopher Waller, Board of Governors of the Federal Reserve System
The Honorable Travis Hill, Vice Chairman, Federal Deposit Insurance Corporation
The Honorable Jonathan McKernan, Director, Federal Deposit Insurance Corporation
The Honorable Rohit Chopra, Director, Consumer Finance Protection Bureau