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Board of Governors of the Federal Reserve System
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Mr. James P. Sheesley
Assistant Executive Secretary
Federal Deposit Insurance Corporation
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Chief Counsel's Office
The Office of the Comptroller of the Currency
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Re: ***Proposed Rules: "Large Banking Organizations and Banking Organizations with Significant Trading Activity" (OCC Docket Number OCC-2023-0008 (RIN 1557-1557-AE78); Board Docket No. R-1813 (RIN 7100-AG64); FDIC RIN 3064-AF29); and "Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15)" (Board Docket No. R-1814 (RIN 7100-AG65))***

On behalf of the more than two million farmers and ranchers who belong to one or more farmer cooperative(s), the National Council of Farmer Cooperatives (NCFC)[1] 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 the above proposals (Proposals).

Farmer cooperatives – businesses owned, governed and controlled by farmers and ranchers – are an important part of the success of American agriculture. This ownership structure has served to help individual family farmers and ranchers thrive despite the ups and downs of weather, commodity markets, and technological change. Through their cooperatives, producers can improve their income from the marketplace, manage risk, and strengthen their bargaining power, allowing farmers to compete globally in a way that would be impossible to replicate as

[1] Since 1929, NCFC has been the voice of America's farmer cooperatives. NCFC members include regional and national farmer cooperatives, which are in turn composed of 1,700 local farmer cooperatives across the country. NCFC members also include 21 state and regional councils of cooperatives.

individual producers. In all cases farmers are empowered, as elected board members, to make decisions affecting the current and future activities of their cooperative. Earnings derived from these activities are returned by cooperatives to their farmer-members on a patronage basis, thereby enhancing their overall farm income and improving rural economies.

In particular, by providing commodity price risk management tools to their member-owners, farmer cooperatives help mitigate commercial risk in the production, processing and selling of a broad range of agricultural and food products. America's farmers and ranchers must continue to have access to a diverse set of risk management products that enable them to feed, clothe and provide fuel to consumers here at home and around the world. As such, our members are concerned that the proposed rules could result in greater and unnecessary costs while reducing the tools available to mitigate risk for their businesses and farmer-owners.

I. Introduction

NCFC members represent a broad section of the agriculture industry, across nearly all commodities and segments of the inputs and marketing channels. Many NCFC members rely on the derivatives markets – both exchange-traded futures and options, and over-the-counter (OTC) products – to hedge the commercial risk inherent to agriculture production, processing, and marketing.

As processors and marketers of commodities, and suppliers of farm inputs, cooperatives are commercial end-users of commodity derivatives. They use derivatives to effectively minimize risks associated with price movements in commodities, such as grain, milk and dairy products, livestock, energy and fertilizer. Additionally, some cooperatives hedge their exposure to interest rate and/or foreign exchange fluctuations with derivatives.

Derivatives also give cooperatives the ability to offer customized tools to their farmer-owners, helping them to better manage their own production risk and returns and provide more predictable profitability.

For example:

- Grain cooperatives can offer farmers the ability to lock in a minimum price for future delivery of a specific volume of grain. The cooperative then offsets that risk by entering into a futures contract on an exchange.

- Cooperatives help dairy farmers lock in a future margin by offering a fixed price for their milk and a hedge for their feed/input purchases. The cooperatives use the derivatives markets to offset the risk of offering forward fixed-price contracts to their farmers, as well as the ability to fix the producers' input costs.

Cooperatives access the commodity derivative markets in a number of ways, primarily initiating trades through futures commission merchants (FCMs), both non-bank and bank affiliated FCMs. The FCMs provide access to traditional exchange-traded contracts on Designated Contract Markets (CME, ICE, Minneapolis Grain Exchange, etc.).

While not used to the extent as exchange-traded contracts, the swaps markets also play a vital role in the ability of cooperatives to hedge in the various commodity markets, in both the agricultural and energy markets. Swaps are especially important in times of extreme price volatility that puts stress on the industry – and allows working capital to be freed up so cooperatives can continue to offer forward pricing options for farmers to manage their own production risk.

In addition, swaps serve as important tools in agriculture markets that may not have sufficient trading volume on the futures exchanges, as well in being able to customize hedges to address situations that may not match up well to conventional futures contract specifications. To access the OTC market, cooperatives use a variety of commercial (non-registered) counterparties as well as registered swap dealers, including large banking entities.

II. Comments on the Proposed Rule

Throughout the Dodd-Frank Act implementation process, NCFC advocated for rules that would allow for continued access to a robust and diverse set of hedging options, contracts and counterparties. Therefore, NCFC echoes the concerns of the Proposals raised by other end-users that use derivatives to hedge their commercial risks. While the goal of ensuring and improving financial system integrity is strongly supported by our members, we are concerned our industry will be subject to unintended consequences of the Proposals if they go forward in their current form, including:

(A) increased end-users' costs of hedging;
(B) fewer banking organizations acting as FCMs to the agriculture industry and as swap dealers in commodity OTC derivative contracts, thereby reducing end-users' risk management options; and
(C) less liquid and more volatile markets.

The impact of increased capital costs for derivative contracts as a result of the Proposals may create a disincentive for banking organizations to continue to offer DCM clearing services through their FCMs, or act as market-makers in OTC commodity derivative contracts, which would result in less liquidity in commodity derivative markets, and fewer options for end-users.

Unnecessarily high capital requirements that do not match the associated risk also will create a barrier to entry for certain market participants, such as farmer-owned cooperatives. As noted above, farmer cooperatives are businesses owned, governed, and controlled by farmers and ranchers. Thus, we are particularly troubled by the determination of "Investment Grade" for Unlisted Corporate Exposures (the "Public Listing Requirement"). The Basel III Endgame Proposal would provide a preferential 65% risk weight for investment grade corporate exposures based on a large banking organization's internal assessment of creditworthiness. However, the Proposal would require that the preferential 65% risk weight can only be applied if the counterparty has shares that are publicly traded on a national securities exchange or foreign equivalent.

Therefore, NCFC believes cooperatives, as not being publicly traded, will be put at a disadvantage to other entities by being subjected to more expensive, and likely fewer options in accessing the derivatives markets to hedge their own commercial risks as well as those of their farmer-members, regardless of their creditworthiness or risk of default. Due to the impact of increased capital costs, NCFC fears bank affiliated FCMs will be disincentivized from doing business with entities that are not publicly traded, while their swap dealing entities reduce, or altogether eliminate, offering those hedging services to cooperatives. Given the arbitrary nature of the public listing requirement and the likely unintended consequences on otherwise highly creditworthy entities, we urge that this requirement be eliminated.

III. Conclusion

NCFC appreciates this opportunity to provide feedback on the Proposals and believes they would lead to less competition, fewer options, and higher hedging costs to farmer cooperatives overall. Additionally, producers are increasingly dependent on their farmer cooperatives to provide them with the tools to manage price risk, especially during times of increased volatility in commodity markets. Therefore, we ask that the Agencies consider the downstream pricing costs on end-users and the adverse impacts of disincentivizing banks from offering hedging services to the agriculture industry in general, and farmer cooperatives specifically.

We appreciate your consideration of the above points as you re-evaluate the Proposals.

Sincerely,

Charles F. Conner
President & CEO