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February 27, 2012

Mr. Gary K. Van Meter
Director, Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Subject: Proposed Rule – Funding and Fiscal Affairs, Loan Policies and Operations, and Funding Operations; Liquidity and Funding – RIN 3052-AC54

Dear Mr. Van Meter:

AgriBank appreciates the opportunity to comment on the Farm Credit Administration's (FCA) proposed rule on liquidity management. We respect FCA's perspective and responsibilities as a safety and soundness regulator. We understand that the proposed rule is intended to enhance safety and soundness across the Farm Credit System (System), especially in light of the recent financial crisis.

We endorse all aspects of the System's comment letter submitted by the Farm Credit Council (FCC). The System's letter reflects AgriBank's perspective on the proposed rule. In addition, we provide supplemental comments in support of the System's letter in the following paragraphs.

As FCA observes, the System does not have an "assured lender of last resort." We encourage FCA to work with the System to develop assured access to emergency short-term liquidity through the Farm Credit System Insurance Corporation (FCSIC), Federal Financing Bank, or the Federal Reserve for a scenario of complete financial market paralysis and illiquidity. As the System's safety and soundness regulator, FCA could be instrumental in advancing such an effort. As stated in FCC's letter, the System would be happy to work with FCA on such an effort.

It is important that FCA recognize that discount notes (DNs) provide the System with an excellent source of liquidity during financial market downturns or operational disruptions. As a Government Sponsored Entity (GSE), the System has been able to issue DNs at favorable levels during periods of market turmoil, thereby benefiting from investors' typical "flight to quality." (Indeed, not only DNs have benefited from flights to quality; System bonds have also benefited.) FCA should consider that adding a "supplemental liquidity buffer" effectively increases the days coverage requirement for System Banks; days coverage will need to exceed the regulatory minimum of 90 days. As a result, System Banks will be forced to further lengthen the maturity of their liabilities, causing a potential reduction in DN usage. Reduced DN usage could reduce the viability of the Discount Note Program. It would be unfortunate if tightened liquidity requirements were to inadvertently harm the DN program – arguably the most important source of liquidity to the System during previous crises. In addition, regulations should avoid creating the requirement of holding excessive levels of low-yielding liquidity investments that simply raise costs to our member-owners.

In general, we find the proposed rule to be overly complex, too prescriptive, and excessively detailed. We agree with the FCC that the proposed liquidity regulation combined with the proposed investment management rule creates a complex layering of requirements that result in additional regulatory and administrative burden.

The proposed section on policy content is too detailed and prescriptive. We believe regulatory requirements should not specify the content of board policies in detail, but should be more general in nature. The seven minimum content requirements are excessive, burdensome, and unnecessary. By detailing what policy must contain, FCA has inappropriately interfered with the discretion of the board to direct and oversee the liquidity risk management of its institution. FCA should generalize and simplify the proposed requirements by setting principles the board should consider when overseeing and approving liquidity policies appropriate for their institution's business operations. We ask FCA to consider a more balanced approach, less detailed, with broader regulatory requirements supported by appropriate policy guidance.

We applaud FCA's effort to create regulatory requirements that are similar to those of U.S. banking regulators as appropriate. We also believe it is important that the FCA not get ahead of other regulators with respect to their consideration and implementation of Basel III.

In the preamble, FCA states that it "expects each FCS bank to include a prudent amount of unfunded commitments in its calculation of the target amount of days of liquidity it will need to survive a liquidity crisis in the markets." We strongly believe that the level of unfunded commitments included in liquidity thresholds should be determined by System institutions, including our affiliated associations, rather than by regulation. System institutions are in the best position to determine the level of unfunded commitments that are likely to be drawn under various economic scenarios, based upon their particular portfolios and exposures.

AgriBank appreciates the opportunity to comment on the proposed liquidity regulations. We ask FCA to consider our comments as it works to develop a final rule. As the System weathered the financial crisis relatively well under current liquidity regulations, we believe excessive tightening of the regulations is unnecessary.

Sincerely,

L. William York
Chief Executive Officer