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Via email: reg-comm@fca.gov

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

RE: Proposed Rule on Liquidity and Funding – RIN 3052–AC54

CoBank appreciates the opportunity to comment on the Farm Credit Administration's (FCA or Agency) Proposed Rule on liquidity and funding requirements for Farm Credit System (FCS or System) banks. The Farm Credit Council (FCC) also submitted comments on behalf of the System on this proposed rule. CoBank fully supports and endorses FCC's comments made on behalf of the System. We fully agree with the issues raised in the FCC comment letter and we ask FCA to revise the proposed rule to address the System's concerns and comments. We write now to emphasize certain concerns and comments FCC made in the System comment letter on the proposed rule. We view our comment letter as supportive and supplemental to the FCC's comment letter.

Overall, we recognize that FCA is pursuing this rulemaking in an effort to enhance current regulatory liquidity requirements to further safeguard against extremely adverse financial market events, such as the 2008 financial crisis. While a worthy effort, we see the proposed rule as an excessive and prescriptive revision to regulatory liquidity requirements, particularly given the existing requirements were effective during the 2008 financial crisis. In addition, the System banks have already made the necessary refinements to their liquidity management practices to further strengthen the System's overall performance when financial market stresses occur. These refinements include the voluntary liquidity standard and liquidity measure of the Contractual Interbank Performance Agreement. In combination, these refinements are an effective, efficient, sufficient, and reasonable response to refining the System's liquidity management practices in light of experience gained from the 2008 financial crisis. Therefore, we ask the FCA reconsider its proposed approach and model any regulatory revisions after taking into account the refinements the System has already implemented.

In our view, the proposed rule goes far beyond what is needed to refine liquidity management practices and creates a complex layering of regulatory requirements that are functionally redundant in the areas of liquidity and investment management. For example, the proposed liquidity policy requirement is prescriptive and redundant to existing regulations that require an investment policy. Similarly, FCA has proposed a complex multi-level approach to liquidity standards that seems to duplicate and further narrow existing conservative requirements for eligible investments. As a result, we see the proposed rule as ultimately compelling System banks to engage in management practices that focus on regulatory compliance rather than sound liquidity management. Consistent with FCC's comments, we ask that FCA substantively revise the proposed regulation to be more flexible, less detailed and complex, more transparent, and consistent with a principles-based regulatory requirement.

Beyond our overall comment, we are also concerned with potential omission of government and agency guaranteed pass-through mortgage backed securities (MBS) and collateralized mortgage obligations (CMOs) from the composition of the liquidity reserve as proposed in § 615.5134(e). Given the liquidity and marketability of government guaranteed MBS and CMO securities, it is critical they qualify as level 1 instruments for liquidity reserve purposes. For similar reasons, agency MBS and CMOs should qualify as level 2 instruments. Importantly, the Federal Reserve has proposed to allow all unencumbered government and agency guaranteed MBS and CMO securities to count as highly liquid assets to satisfy a 30-day liquidity buffer requirement at systemically important financial institutions.[1] We ask that FCA treat such securities in an identical manner and explicitly recognize that these securities should be classified as high quality liquid investments that qualify as level 1 and level 2 liquidity investments respectively.

We are also concerned with the highly subjective "80 percent of book value" requirement for investments included in the supplemental liquidity buffer as proposed in § 615.5134(f). This proposed requirement is unnecessary and too inflexible, particularly considering that the liquidity of an investment is not a function of its movement in market price relative to its book value. While FCA may be concerned that a decline in market value may make a bank less willing to sell a security, the management process does not fundamentally alter if an investment can be liquidated quickly and easily for cash. In fact, there is clear evidence that many securities remain marketable even when their value declines significantly due to movements in interest rates or other factors. For example, as highlighted in the FCC comment letter, a 10-year Treasury bond can sustain a 25 percent drop in value due to the movement in interest rates but still be highly liquid. Therefore, we see no reason why a security that loses more than 20 percent in market value relative to book value should be excluded from the supplemental liquidity buffer. FCA should eliminate the proposed "80 percent of book value" standard in its entirety given it is arbitrary and inconsistent with sound financial management.

While FCA's rulemaking addresses an important topic, we agree with the FCC comment letter that the proposed rule is too prescriptive and detailed. Overall, the proposal creates a complex layering of regulatory requirements that is burdensome and overly restricts a bank's capacity to manage it liquidity position in a prudent manner. We support FCC's comment that FCA should substantially rework the proposed rule to eliminate prescriptive provisions, such as the liquidity policy, supplemental liquidity buffer, marketable definition, and contingency funding buffer. Along with supporting the FCC's section by section comments, we are particularly concerned with FCA's potential restriction on the use of high quality liquid government and agency guaranteed CMOs for meeting the proposed liquidity reserve requirement. We see such a restriction as significantly increasing costs and burden without a corresponding benefit to the System's liquidity position during stressful financial periods. We are also concerned with the FCA's proposed restrictions on the supplement liquidity buffer. The proposed "80 percent of book value" standard is inconsistent with well-established investment management theory. In its simplicity, we see it as an inappropriate proposal that is not supported by sound analysis.

[1] See 77 FR 3 (January 5, 2012), pp. 646 and 648.

We appreciate the opportunity to comment on this rulemaking. Please do not hesitate to contact us if you have any questions regarding our comments.

Sincerely,

Robert B. Engel

Robert B. Engel
President and Chief Executive Officer