CoBank
6340 South Fiddlers Green Circle
Greenwood Village, CO 80111
800-542-8072
www.cobank.com

January 16, 2024

Via Electronic Submission

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street SW
Suite 3E–218
Washington, DC 20219

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

James P. Sheesley
Assistant Executive Secretary
Attention: Comments/Legal OES (RIN 3064–AF29)
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Regulatory capital rule: Amendments applicable to large banking organizations and to banking organizations with significant trading activity (OCC: Docket ID OCC-2023-0008); (Federal Reserve: Docket No. R–1813, RIN 7100–AG64); (FDIC: RIN 3064–AF29)

Ladies and Gentlemen:

CoBank, ACB ("**CoBank**") appreciates this opportunity to comment on the above-referenced proposed rules (the "**Proposed Rules**") issued by the Office of the Comptroller of the Currency (the "**OCC**"), the Board of Governors of the Federal Reserve System (the "**Federal Reserve**"), the Federal Deposit Insurance Corporation (the "**FDIC**" and, with the OCC and the Federal Reserve, the "**Agencies**"). The Proposed Rules address capital requirements applicable to large banking organizations and banking organizations with significant trading activity, and are proposed to be generally consistent with changes to international capital standards issued by the Basel Committee on Banking Supervision, known as Basel III.

Proud Member of the Farm Credit System

6340 South Fiddlers Green Circle
Greenwood Village, CO 80111
800-542-8072
www.cobank.com

CoBank is the largest bank in the Farm Credit System ("**Farm Credit**") with a mission of providing sound and constructive credit to support U.S. agriculture and rural America. As we will describe in this letter, Farm Credit is highly regulated and its debt has high credit ratings. Our debt obligations are further supported by funds held by the Farm Credit Insurance Corporation, which was established by Congress to support these debt obligations. Because of Farm Credit's critical mission and the extremely low default risk, we request the Agencies reconsider plans to change the treatment of Farm Credit debt in the Proposed Rules.

Under the Agencies' existing capital requirements, debt securities issued by a government-sponsored enterprise ("**GSE**") are afforded a lower market price volatility haircut under the "collateral haircut approach" than higher risk non-GSE investment-grade securities. The collateral haircut approach is used to recognize credit risk mitigation benefits of collateralized repo-style transactions and margin loans. The Proposed Rules would adjust the market price volatility haircuts under the collateral haircut approach so that debt securities issued by a GSE would be afforded the same haircuts as non-GSE investment-grade securities (i.e., GSE securities would no longer receive the reduced haircuts). Farm Credit, like other GSEs, is robustly regulated and its debt obligations are highly liquid and present a low risk profile for investors. Moreover, such debt obligations are the means by which Farm Credit is able to fulfill its vital public mission. Accordingly, Farm Credit respectfully requests that the Agencies revise the collateral haircut approach under the Proposed Rules to continue to afford GSE securities lower market price volatility haircuts than those it affords to non-GSE investment-grade securities consistent with GSE's lower risk profile.

I. Farm Credit

Farm Credit is the oldest GSE of the United States, organized under the authority of the Federal Farm Loan Act of 1916 and substantially reformed under the Farm Credit Act of 1933, as amended. Farm Credit was created to provide support for the agricultural industry because of its significance to the U.S. economy, U.S. consumers, and national security interests. Farm Credit continues to provide this support, and to fulfill the important mission of supporting rural communities and agriculture, by providing reliable, and consistent credit and financial services. Farm Credit presently includes 4 banks and 59 associations, each structured as cooperative institutions, owned by their borrower members, and designed to provide farmers, ranchers, rural cooperatives, and other eligible borrowers with a dependable source of credit. Farm Credit is the largest source of credit to the agricultural industry. The four Farm Credit banks raise money by issuing debt obligations ("**Farm Credit System debt obligations**" or "**Farm Credit debt**") for which the banks are jointly and severally liable. Farm Credit serves the public interest and its mission by providing sound and dependable credit to farmers, ranchers, producers and harvesters of aquatic products, their cooperatives, and farm-related businesses. This is done by making loans to qualified and eligible individuals and businesses at competitive

6340 South Fiddlers Green Circle
Greenwood Village, CO 80111
800-542-8072
www.cobank.com

rates. Consistent with the mission of serving rural America, Farm Credit also makes loans for the purchase of rural homes, to finance rural energy, rural communication and water infrastructure businesses, to support agricultural exports, and to finance other eligible entities.

To effectively provide these services to its member-borrowers and to support agricultural and rural development, Farm Credit banks rely primarily on the funds raised by the debt obligations they issue. As a GSE, Farm Credit is robustly regulated by the Farm Credit Administration ("**FCA**"), resulting in a uniquely low risk profile for investors who purchase Farm Credit debt obligations. This allows Farm Credit to obtain financing on favorable terms to meet its mission and its statutory objective. The continued demand for Farm Credit debt, and the liquidity of the market for Farm Credit debt, is essential for Farm Credit to continue to accomplish its mission of providing readily available, low-cost sources of funds to Farm Credit banks and associations, allowing them to provide reliable, consistent credit and other related financial services to their member-owners.

II. Treatment of Farm Credit Debt in Collateralized Transactions for Purposes of Credit Risk Exposure under Capital Requirements

Under the current capital requirements related to credit risk, large banks and banking organizations with significant trading activity may recognize the risk-mitigation benefits of repurchase and reverse repurchase ("**repo-style**") and certain other collateralized transactions by considering the value of the collateral posted to them in such transactions via the use of a "collateral haircut approach." The collateral haircut approach allows banking organizations to reduce their credit exposure for a collateralized transaction by the value of the collateral they receive from counterparties, adjusted through a formula that includes standard supervisory price volatility haircuts, to account for market price volatility in the value of the collateral. The market price volatility haircut applied to the value of any collateral is determined by a table included within the regulations (see Attachment for existing and proposed tables) that varies based on asset type, residual maturity, and the risk weight of the issuer.

We are concerned that certain changes in the Proposed Rules related to credit risk mitigation may negatively affect demand for and pricing of the Farm Credit debt obligations. The Proposed Rules, among other changes to the credit risk mitigation framework for collateralized transactions and to capital requirements generally, would amend the market price volatility haircuts to (1) vary with a greater number and range of haircuts for the residual maturities of the collateral and (2) remove the variation in the haircuts with respect to the underlying risk weight of the issuer, except for sovereign issuers. Based on the Proposed Rules' second change to market price volatility haircuts, for the purposes of calculating bank credit risk exposure in collateralized transactions, the value assigned to Farm Credit debt offered as collateral would be, in some cases substantially reduced. These changes may affect demand for

6340 South Fiddlers Green Circle
Greenwood Village, CO 80111
800-542-8072
www.cobank.com

Farm Credit debt securities and, as a result, Farm Credit may not be able to provide credit to U.S. farmers, ranchers, and other eligible borrowers in the agricultural and rural sectors as consistently and on as favorable terms as it does today. For the reasons discussed below, the Proposed Rules' removal of variation in the market price volatility haircuts by risk weight of non-sovereign issuers should be amended to better align with the risk profile of collateral issued by low-risk non-sovereign issuers, including by Farm Credit banks and other GSEs. Specifically, the collateral haircut approach should be revised so that the haircuts vary by the risk weights assigned to non-sovereign issuers, as is the case for purposes of computing credit risk with respect to debt investments under the Proposed Rules.

A. Farm Credit Debt Obligations Have a Uniquely Low Risk Profile

A number of factors contribute to the resiliency and stability of the market for Farm Credit debt obligations. First, each Farm Credit bank is jointly and severally liable for Farm Credit System debt obligations. Second, Farm Credit banks and associations are robustly regulated by the FCA, which ensures the stability of Farm Credit through the various regulatory obligations, including capital and investment requirements, which it imposes on Farm Credit banks, associations, and related entities. Furthermore, Congress mandated the funding of a Farm Credit System Insurance Company insurance fund, which both insures the timely payment of principal and interest on Farm Credit System debt obligations and may assist troubled Farm Credit banks and associations to ensure obligations to investors are fulfilled. Third, because of Farm Credit's legal structure and regulatory regime, the credit ratings of Farm Credit debt have traditionally been linked to the sovereign credit of the U.S., and those have historically moved in tandem and commensurately[1]. Investors purchase Farm Credit debt in part because of the stability and resiliency of Farm Credit debt that results from these factors, and some use Farm Credit debt in repo-style collateralized transactions with banking organizations, which contributes to the very liquid secondary market for Farm Credit debt.

Many federal regulations recognize the low risk of Farm Credit debt obligations by providing preferential treatment to Farm Credit debt. For example, Farm Credit System debt obligations, as GSE debt exposures, are afforded a 20% risk weight for the purpose of computing credit risk with respect to debt investments under the Proposed Rules (which do not change the existing approach). Farm Credit debt similarly receives preferential treatment under investment eligibility requirements for national banks pursuant to 12 C.F.R. §§ 1.2(j)(5). This lower risk profile is also reflected by the exemption of Farm Credit debt securities from certain registration and disclosure requirements under the Securities Act of 1933 and the Securities Exchange Act of 1934.

[1] Currently, Farm Credit System debt obligations carry ratings of Aaa by Moody's Investors Service, AA+ by Fitch Ratings and AA+ by S&P Global Ratings.

Proud Member of the Farm Credit System

Notwithstanding these considerations, the Proposed Rules would remove preferential treatment for Farm Credit debt in collateralized transactions by eliminating the variation of price volatility haircuts by risk weight of non-sovereign issuers. In the Proposed Rules, the Agencies state that issuer risk weight was removed as a basis for the haircuts to non-sovereign debt securities because they "figure less prominently in the instrument's market price volatility," derived "from observed stress volatilities during 10-business day periods during the 2008 financial crisis." 88 Fed. Reg. 64028, 64062-64063. However, based on the liquidity of the market for Farm Credit debt obligations, as well as the resiliency of that market due to regulatory oversight and statutorily-mandated insurance insuring Farm Credit debt, Farm Credit debt securities have reduced market price volatility than other debt exposures. In fact, during the 2008 financial crisis as well as during the COVID pandemic commencing March 2020, Farm Credit debt obligations did not suffer the same level of market price volatility as other corporate exposures, based in part on actions by Farm Credit to maintain funding for Farm Credit operations through short-term debt issuances. The Agencies themselves have acknowledged this. In the proposing release for the Proposed Rules, the Agencies stated that "GSE debt instruments guaranteed by the GSEs consistently trade in very large volumes and, similar to U.S. Treasury securities, have historically been able to rapidly generate liquidity for a banking organization, including during periods of severe market stress." 88 Fed. Reg. 64028, 64139. Moreover, the Agencies' existing capital requirements afford GSE debt a 20% risk weight for the purpose of computing credit risk, whereas non-GSE corporate debt is afforded a 65% to 100% risk weight; this would not change under the Proposed Rules.

The Proposed Rules purport to amend the bases for market price volatility haircuts to make the haircuts more risk-sensitive. To align with such stated goal, the Proposed Rule should be amended to reflect the lower market price volatility associated with Farm Credit debt securities as compared to other debt securities by assigning GSE debt securities lower market price volatility haircuts than those that would apply to non-GSE debt securities.

B. The Proposed Rules' Approach to Market Price Volatility Haircuts is Inconsistent Between Sovereign and Non-Sovereign Issuers

While the Proposed Rules would eliminate risk weight of non-sovereign issuers as a basis for varying market price volatility haircuts, they would retain risk weight as a basis for sovereign issuers of debt securities. Thus, the Agencies must believe that, at least for sovereign issuers, the factors contributing to a lower issuer risk weight correlate to some degree with the market price volatility of an issuer's debt instruments. If the Proposed Rules are meant to increase risk sensitivity regarding the price volatility haircuts applied to collateral, the same factors involved in the analysis for sovereign issuers should apply with respect to non-sovereign issuers.

As described above, Farm Credit debt and corporate debt are rated by credit rating agencies, as are U.S. Treasury securities and other sovereigns' debt. The different credit ratings of these debt securities, like the different risk weights of the debt securities' issuer, are based on a number of factors related to the creditworthiness of the issuer and the likelihood that the debt obligations of the securities will be fulfilled. For example, due to the guarantee of payment obligations for U.S. Treasury securities ("**Treasuries**") and the resiliency and liquidity in the Treasuries market, the issuer of Treasuries, namely the United States government, is assigned a lower risk weight compared to other, more risk-laden sovereign exposures. For the same reasons, Treasuries are less susceptible to market price volatility than more risk-laden sovereign exposures. To reflect this difference in price volatility, the haircuts applied to U.S. Treasuries offered as collateral are lower than instruments issued by sovereign issuers with a higher risk weight.

The same logic should apply for non-sovereign debt instruments. When compared to other investment-grade securities, Farm Credit debt has a lower risk profile and high credit ratings (which have historically been aligned with the sovereign credit ratings of the United States). We believe that this is in part based on the status of the Farm Credit banks as robustly-regulated GSEs, the Farm Credit banks' joint and several liability on Farm Credit debt and the highly liquid secondary market for Farm Credit debt obligations. These factors justify the application of market volatility haircuts that are lower than those for less creditworthy and less liquid corporate and sovereign debt. The current capital requirements regarding the risk mitigation treatment of collateralized transactions recognize this logic, and provide similar treatment for both sovereign and non-sovereign debt securities. The Proposed Rules would remove this treatment without sufficient explanation and would ultimately result in a less risk-sensitive approach to the risk mitigation benefits afforded under the existing capital requirements to which banking organizations are subject.

C. The Potential Harm of the Proposed Rules' Change Outweighs Any Potential Benefit

The potential impact to Farm Credit of the Proposed Rules' changes counsel against the removal of variation by issuer risk weight of market price volatility haircuts for Farm Credit debt. Farm Credit debt obligations play a vital role in Farm Credit banks' and associations' abilities to provide much-needed credit for the U.S. agricultural sector and rural America. The removal of the preferential treatment for Farm Credit debt as collateral in comparison to other investment-grade corporate debt could harm the Farm Credit's ability to fulfill its purpose and its unique mission. Banking organizations subject to the Proposed Rules use Farm Credit debt obligations in collateralized transactions such as for repurchase and reverse repurchase transactions. The Proposed Rules' removal of preferential treatment for Farm Credit debt obligations under the collateral haircut approach could increase the cost of issuance of, or

6340 South Fiddlers Green Circle
Greenwood Village, CO 80111
800-542-8072
www.cobank.com

reduce demand for, Farm Credit debt as collateral in these types of transactions. This may harm liquidity for Farm Credit debt in the market, impact general demand for Farm Credit debt obligations, and increase Farm Credit's cost of funding with higher interest rates due to the foregoing, which would ultimately harm the public purpose of Farm Credit to provide reliable and consistent credit for agriculture businesses and rural America. Higher funding costs for Farm Credit would ultimately result in higher interest rates for its member-owners, which could adversely impact the U.S. economy, U.S. consumers, and national security.

Also, because of its cooperative structure, such higher funding costs could result in less money being returned to Farm Credit member-owners in the form of patronage refunds. The various other restructurings of and increases in capital requirements for banking organizations with regard to credit risk elsewhere in the Proposed Rules are sufficient to achieve the financial institution resiliency objectives of the Agencies. In contrast, the likely harm to Farm Credit's vital purpose of providing reliable and consistent credit to the agricultural sector and rural America outweighs any potential benefit from the increase in haircuts to Farm Credit debt held as collateral by banking organizations to reduce their credit exposure for affected transactions.

III. Conclusion

Based on the foregoing, CoBank respectfully requests that the Agencies revise the collateral haircut approach under the Proposed Rules to continue to afford GSE securities, including Farm Credit System debt obligations, lower market price volatility haircuts in accordance with their lower risk profile than haircuts it affords to non-GSE investment-grade securities.

We appreciate the opportunity to provide these comments on the Proposed Rules.

Respectfully submitted,

Thomas E. Halverson
President and Chief Executive Officer

cc: Farm Credit System Bank Presidents
President, Federal Farm Credit Banks Funding Corporation

Attachment

COBANK
6340 South Fiddlers Green Circle
Greenwood Village, CO 80111
800-542-8072
www.cobank.com

Attachment

Existing Table 1 in the regulatory capital regulations:

TABLE 1 TO §217.37—STANDARD SUPERVISORY MARKET PRICE VOLATILITY HAIRCUTS [1]

Residual maturity	Haircut (in percent) assigned based on: Sovereign issuers risk weight under §217.32 (in percent) [2]			Non-sovereign issuers risk weight under §217.32 (in percent)			Investment grade securitization exposures (in percent)
	Zero	20 or 50	100	20	50	100	
Less than or equal to 1 year	0.5	1.0	15.0	1.0	2.0	4.0	4.0
Greater than 1 year and less than or equal to 5 years	2.0	3.0	15.0	4.0	6.0	8.0	12.0
Greater than 5 years	4.0	6.0	15.0	8.0	12.0	16.0	24.0
Main index equities (including convertible bonds) and gold				15.0			
Other publicly traded equities (including convertible bonds)				25.0			
Mutual funds				Highest haircut applicable to any security in which the fund can invest.			
Cash collateral held				Zero.			
Other exposure types				25.0			

[1] The market price volatility haircuts in Table 1 to §217.37 are based on a 10 business-day holding period.
[2] Includes a foreign PSE that receives a zero percent risk weight.

Proposed Table 1 to §__.121

<table>
<tr><td colspan="7">Market Price Volatility Haircuts
(Haircut and risk weights in percent)</td></tr>
<tr><td colspan="2" rowspan="2">Residual maturity</td><td colspan="3">Securities issued by a sovereign or an issuer described in §__. 111(b)[118] (percent)</td><td colspan="2">Other investment-grade securities (percent)</td></tr>
<tr><td>Issuer risk weight of zero</td><td>Issuer risk weight of 20 or 50</td><td>Issuer risk weight of 100</td><td>Exposures other than securitization exposures</td><td>Senior securitization exposures with risk weight < 100</td></tr>
<tr><td rowspan="5">Debt securities</td><td>Less than or equal to 1 year</td><td>0.5</td><td>1</td><td>15</td><td>2</td><td>4</td></tr>
<tr><td>Greater than 1 year and less than or equal to 3 years</td><td rowspan="2">2</td><td rowspan="2">3</td><td rowspan="2">15</td><td>4</td><td rowspan="2">12</td></tr>
<tr><td>Greater than 3 years and less than or equal to 5 years</td><td>6</td></tr>
<tr><td>Greater than 5 years and less than or equal to 10 years</td><td rowspan="2">4</td><td rowspan="2">6</td><td rowspan="2">15</td><td>12</td><td rowspan="2">24</td></tr>
<tr><td>Greater than 10 years</td><td>20</td></tr>
<tr><td colspan="2">Main index equities (including convertible bonds) and gold</td><td colspan="5">20</td></tr>
<tr><td colspan="2">Other publicly traded equities and convertible bonds</td><td colspan="5">30</td></tr>
<tr><td colspan="2">Mutual funds</td><td colspan="5">Highest haircut applicable to any security in which the fund can invest, unless the banking organization can apply the full look-through approach for equity investments in funds in §__.142(b), in which case the banking organization may use a weighted average of haircuts applicable to the securities held by the fund.</td></tr>
<tr><td colspan="2">Cash on deposit</td><td colspan="5">Zero</td></tr>
<tr><td colspan="2">Other exposure types[119]</td><td colspan="5">30</td></tr>
</table>

Proud Member of the
Farm Credit System