News Release

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FCA board receives reports on swap margin rules and funding conditions in the Farm Credit System

McLEAN, Va., March 12, 2020 — At its monthly meeting today, the Farm Credit Administration board received a report (PDF) from staff regarding the interagency rules for margining noncleared swaps and security-based swaps.

The rules govern the posting and collecting of collateral on noncleared derivative instruments, commonly known as swaps. As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, these rules are developed jointly by FCA and four other agencies: the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Federal Housing Finance Agency.

The five agencies issued an interim final rule (84 FR 9940) in March 2019 and a proposed rule (84 FR 59970) in November 2019 to amend the interagency rules.

The staff report described the amendments that are outlined in the interim and proposed rules. Among other things, these amendments would address the potential impacts to noncleared swap activities resulting from the following significant market events:

- The United Kingdom’s exit from the European Union (also known as “Brexit”)
- Initiatives to move away from referencing interbank offered rates like Libor in financial contracts

The comment periods for both rules are now closed.

Report on the System’s funding conditions

The FCA board received an update (PDF) on the Farm Credit System’s funding activity. According to the update, the System had $294 billion in debt outstanding as of Dec. 31, 2019, amounting to a 4.3% increase from year-end 2018. The System’s share of the $1.8 trillion agency debt market was 16%, ranking second only to the Federal Home Loan Bank System, which held a 56% share. The update also discussed the following topics:

- The System’s cost of debt, risk premiums, and various aspects of its debt portfolio, including composition, maturities, and issuances for year-end 2019.

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- The System's investment holdings in terms of days of liquidity; these investments provide the primary funding backup if the System's access to the debt market is interrupted.
- The scheduled phase-out of Libor as a pricing index at the end of 2021 and the proposed domestic integration of the Secured Overnight Financing Rate in its place.
- Impacts of the coronavirus on debt markets.

Overall, the System's condition and performance remained solid in 2019. The risk premiums required by investors for its debt remained favorable as overall FCS debt yields decreased significantly.

FCS debt yields experienced an about-face during the second part of 2019 largely because the Federal Reserve changed from its contractionary stance during 2018 and the first part of 2019 to an expansionary one. The Federal Reserve cut the target range for the federal funds rate by 25 basis points three times during the second half of 2019.

The Federal Reserve's actions provided substantial opportunities to exercise call options on the System's callable debt. As a result, the System exercised $54 billion in call options to issue lower-cost debt compared with only $29 million in 2018. However, competitive pricing pressures on System assets, coupled with the System's rising cost of debt during the better part of 2019, further compressed the System's net interest spread. Nevertheless, the System's net income continued to increase marginally.

The dominant influence on funding conditions in 2020 has been the rapid global spread of the coronavirus. The economic effects of the disease have driven global debt yields and equity markets down sharply. To try to counter these far-reaching impacts, the Federal Reserve cut the target range for the federal funds rate by an unexpected 50 points on March 3. Other central banks have joined the Federal Reserve in taking similar actions.

Notational votes

Since the Feb. 13 FCA board meeting, the following notational votes have occurred. Notational votes are actions taken by the FCA board between board meetings.

- On Feb. 25, the board approved FCA's Spring 2020 Update of the Unified Agenda of Federal Regulatory and Deregulatory Actions and the Spring 2020 Regulatory Projects Plan.
- On Feb. 25, the board approved rescheduling the Nov. 12, 2020, board meeting to Nov. 19.

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