



# THE FARM CREDIT COUNCIL

December 4, 2014

Mr. Barry Mardock  
Deputy Director, Office of Regulatory Policy  
Farm Credit Administration  
1501 Farm Credit Drive  
McLean, Virginia 22102-5090

RE: Proposed Rule: Regulatory Capital, Implementation of Tier 1 / Tier 2 Framework

Dear Mr. Mardock:

On behalf of the Farm Credit System's Presidents' Planning Committee<sup>1</sup> and the Farm Credit Council, I am writing to respectfully request the Farm Credit Administration ("FCA") to grant a 90-day extension to the public comment period on the proposed capital rules implementing a Tier 1/ Tier 2 Framework (the "Proposed Rule"). We have concluded that this additional time is necessary after careful due diligence and consideration of the situation, which included consulting with various System institutions, large and small alike, their directors and officers, as well as our outside advisors. We believe an extension of the comment period is necessary and appropriate for the following reasons:

- We have been analyzing how the Proposed Rule may alter the manner in which Farm Credit System ("System") institutions have historically raised and accumulated capital from their members. We observed that across the System at-risk cooperative equities generally have identical legal rights and features but varying retirement practices depending on the institution's approach to cooperative ownership. Existing regulations allow capital instruments with the same legal terms to fall into different regulatory capital classifications based on these varying retirement practices. Accordingly, System institutions today can control how member-held equities are treated for regulatory capital purposes through their Board-approved capital plans, retirement practices and related member communications. We recently realized that the Proposed Rule appears to shift to a capital regime in which there is a need to differentiate legal features of cooperative equities to establish a dividing line between capital instruments for regulatory capital treatment based at least in part on retirement practices followed by a System institution. This is a major shift and one which System entities are only beginning to understand. We would appreciate additional time to evaluate the impact of this shift and its underpinnings in Basel III as adopted by the Basel Committee on Banking Supervision and the U.S. banking agencies.
- The Proposed Rule is the longest and most complex regulation proposed for adoption in the System's history. The more closely we study the Proposed Rule the more interpretive issues we discover that call for clarification and guidance. We would like additional time to feel more confident that our comment letters will cover all material issues and topics where we believe

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<sup>1</sup> Known as the "PPC", the Presidents' Planning Committee includes representatives from each System Bank, several System associations, the Federal Farm Credit Banks Funding Corporation and the Farm Credit Council. The PPC serves in a management coordination capacity for the System and provides a key advisory role in the System's decision-making process.

additional clarification is necessary, as well as to develop a consensus on responses to the various matters on which FCA solicited specific comments or suggestions on alternatives to the approach taken in the Proposed Rule.

- The Proposed Rule is arguably the most impactful regulation ever proposed by FCA. The capital plans—and potentially capitalization bylaws—of all System institutions will need to be revised to reflect the new standards. That said, the impacts will not be felt equally. System institutions are committing substantial time and resources to educate themselves and their directors on the significance of the proposed changes for their respective members. We believe additional time is necessary for each System institution to independently evaluate how the new capitalization standards will alter its business model and have input into the System’s comment letter and/or a separate comment letter from individual System institutions and /or their members. This will ensure FCA will have to access to a more diverse set of perspectives on this extremely important rule-making.
- Despite our best efforts, we do not believe we will be able to complete the Quantitative Impact Study (“QIS”) on the Proposed Rule within the original comment period. This study is designed to provide a pro forma estimate of each institution’s capital ratios under the new standards. We believe this study will provide an invaluable source of information to FCA, but only if the models are accurately constructed and the data inputs are correct. Responses to the questionnaires soliciting data input from each institution reveal an uneven level of understanding of the Proposed Rule across the System and, in some case, misconceptions. Additional time is necessary to ensure that we are able to gather reliable information to complete the QIS.
- While we understand that the original 120-day comment period was longer than the normal comment period, it has overlapped with the comment periods of other important regulations (e.g., permissible investments, standards of conduct) and year-end business planning. Additional time is necessary to ensure all System institutions, particularly smaller institutions, have an adequate understanding of the consequences of the Proposed Rule.

We have had an extensive debate on whether to request an extension to the comment period. In the end, we unanimously concluded that the above reasons compel our decision to make this request, particularly given the length, complexity and significance of the Proposed Rule. We share FCA’s desire to implement a Basel-compliant capital regime that meets the four stated objectives for the Proposed Rule, while promoting the long-term safety and soundness of the System. Additional time for our workgroup and System institutions to develop constructive, thoughtful and individualized comment letters to the Proposed Rule will help to achieve this goal.

Respectfully submitted,



Charles P. Dana, General Counsel  
Farm Credit Council

cc: William Hoffman  
Gary Van Meter  
Charles Rawls  
System CEOs.