AgSouth
Farm Credit, ACA

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December 10, 2014

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

Re: Proposed Rule – RIN 3052-AC81
Regulatory Capital, Implementation of Tier1/Tier 2 Framework

Dear Mr. Mardock:

We are writing to provide the following comments to the proposed rule on behalf of the Board and management of AgSouth Farm Credit, ACA ("AgSouth"). We wish to begin by taking the opportunity to thank the Farm Credit Administration ("FCA" or "Agency") for engaging with System institutions to receive input.

AgSouth is concerned that the proposed regulations do not strike the appropriate balance between supporting and protecting the cooperative structure on which Congress based the System and aligning with the Basel III concepts written for joint stock companies. Unfortunately, parts of the Agency's proposal will undermine the cooperative structure. The comments below provide a more workable solution meeting the requirements of Basel III while also supporting the System's Congressionally-mandated cooperative structure:

First, the proposal would require AgSouth to hold a shareholder vote to amend our capitalization bylaws. It is unclear as to what impact, if any, there would be if our shareholders decide to not make the required changes. To avoid the uncertain and possibly significant impact of a vote against the changes, we suggest that FCA consider removing the requirement for the bylaws to be amended and instead permit institutions to make changes to policies, procedures and capital plans. This would be done by the Board who would have a better understanding of the changes and the need for the same and would then be communicated out to shareholders.

Second, the proposed revolvement period for Common Equity Tier 1 (CET1) at 10 years is simply too long. We suggest shortening the revolvement period to 5 years and permit the normal revolving features of loan-based cooperative equity plans. We have found no basis in Basel III for the proposed 10-year revolvement cycle and feel that it is overly stringent and fundamentally inconsistent with cooperative principles.

As evidenced by the patronage history chart attached, AgSouth and its' predecessor associations have a long history of paying a strong patronage and revolving allocated surplus on a consistent 5 year cycle. Since 1991, AgSouth has redeemed over $241 million in allocated surplus and this consistent revolvement allows us to remain competitive in the marketplace and build a loyal customer base. By returning the majority of our earnings in a timely manner, our member-customers have come to expect the revolvement. Significantly extending that timeframe would damage our reputation.

Further, our members also understand that the financial strength of the Association is directly tied to the payment of patronage and the revolvement of allocated equities. We are financially strong and our member-customers have expectations of a continued patronage program. To extend the revolvement period sends a

message that for AgSouth has no basis in fact. For cooperative capital, the length of time a share is outstanding is irrelevant to permanence. Rather, permanence is determined by member-customers' clear understanding that their shares are at-risk and committed to the long-term financial stability of their cooperative. Additionally, the proposed extended revolvement period creates an operational issue. Life changes such as, marriage, divorce, death, occur and create issues for Association staff to locate and distribute funds to the rightful owner.

Similarly, we suggest eliminating the concept of 10-year revolvement cycles for association investments in their funding bank to qualify for CET1. Within the closed System cooperative structure, requiring a revolvement cycle for association-held bank equities is unnecessary, inefficient, ineffective, and without any discernable benefit. This proposed requirement would limit the funding bank's ability to function as a cooperative or equalize capital investments. It is critical FCA understand that the permanence of the bank capital is entirely unaffected by how capital is equalized among affiliated associations. We strongly request that FCA provide flexibility for banks to equalize capital investment among affiliated associations without compromising CET1 treatment.

As to the proposed "safe harbor" provision that authorizes limited distributions (excluding stock retirements) without FCA prior approval, we submit that the rule follow the same standards as foreign bank regulators and allow up to a 2% reduction in CET1 – so long as capital ratios remain above the conservation buffer. In addition, the "haircut deduction" for early distributions is punitive and should be eliminated from the proposed regulations and handled through the FCA examination and review process.

Finally, we find no evidence that Basel III requires or even suggests a safety and soundness basis for establishing unallocated retained earnings (URE) as a "superior" class of CET1. As such, FCA has no basis for deviating from Basel III in this area. It is also significantly more stringent than FCA's current URE requirement given it is measured on total, unweighted assets. We therefore request that the final rule eliminate or refine the sub-limit embedded within the proposed Tier 1 leverage requirement. We also suggest a reduction in the proposed Tier 1 leverage requirement, to 4% to be consistent with Basel III standards implemented by regulators across the globe. There is no quantitative analysis or loss experience that justifies a 5% Tier 1 leverage ratio for the System while all other regulated financial institutions regardless of structure are subject to a 4% requirement

We are confident that the suggestions described above would make the proposed capital rule workable and effective from a safety and soundness perspective and consistent with the implementation of Basel III by other regulators. Most importantly, the refinements ensure that the FCS can function consistent with cooperative principles for the benefit of its member-customers as Congress clearly intended.

Thank you again for the opportunity to provide feedback on the proposed rule and we hope that the Agency finds value in our observations, requests and comments.

Respectfully Submitted,

AgSouth Farm Credit, ACA

Charles C. Rucks
Chairman of the Board

William P. Spigener, Jr.
Chief Executive Officer

Attachment: AgSouth Historical Patronage Chart

AgSOUTH FARM CREDIT
PATRONAGE REFUND HISTORY

FISCAL YEAR ENDING	TOTAL PATRONAGE DISTRIBUTION	CASH	ALLOCATED SURPLUS	ALLOCATED SURPLUS DISTRIBUTED	% OF INTEREST EARNED*
1991 - 2003	205,828,229	61,418,897	144,409,332	144,409,332	23.13%
December-04	21,412,050	6,423,615	14,988,435	14,988,435	28.46%
December-05	26,917,231	8,075,169	18,842,062	18,842,062	30.25%
December-06	28,916,264	8,674,879	20,241,385	20,241,385	27.61%
December-07	32,635,059	9,790,518	22,844,541	22,844,541	27.86%
December-08	28,181,834	8,454,550	19,727,284	19,727,284	25.01%
December-09	21,291,710	6,905,967	14,385,743		20.16%
December-10	25,901,273	7,770,382	18,130,891		25.25%
December-11	27,482,328	8,244,698	19,237,630		26.97%
December-12	27,284,560	8,185,368	19,099,192		28.01%
December-13	28,875,377	8,662,613	20,212,764		29.30%
TOTAL	**$ 474,725,915**	**$ 142,606,656**	**$ 332,119,258**	**$ 241,053,039**	**24.56%** (Average since 1991)

Since 1991, the Association has returned over $383,659,695 in Cash and Allocated Surplus distributed as Cash!

*For the years 1991-2003, amounts shown are on a consolidated basis for comparative purposes. Due to various mergers during this period, the actual interest earned percentages differ from the consolidated percentages reflected above. Patronage distribution is subject to board approval and is not guaranteed or implied.