Yankee Farm Credit, ACA

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

Dear Mr. Mardock:

Thank you for the opportunity to comment on Farm Credit Administration's (FCA or Agency) proposed capital rule. The Agency's efforts to modernize Farm Credit System (FCS) capital requirements will result in a framework that is consistent with Basel III standards applied to other financial institutions. I believe that adopting Basel III standards for the FCS will enhance investor understanding of the FCS's financial strength and increase marketability of third-party capital and debt securities, especially in periods of stress, thereby enabling the FCS to fulfill its mission.

I appreciate the Agency's efforts to carefully consider and accommodate the FCS's cooperative structure in developing the proposed capital framework. While FCA has done an admirable job in drafting the proposed capital rule, I am concerned that it does not strike the appropriate balance between supporting and protecting the cooperative structure on which Congress based the FCS and aligning with the Basel III concepts written for joint stock companies. Unfortunately, parts of the Agency's proposal undermine the cooperative structure. As a result, I ask that FCA revise the proposed rule as outlined below to make it workable and supportive of the FCS's congressionally mandated cooperative structure:

1. Eliminate the requirement that FCS institutions obtain shareholder votes on the capitalization bylaw changes required by the proposed rule. This requirement results in a meaningless vote that puts the institution and its member-customers in an impossible situation. If member-customers do not approve the bylaw changes, the institution faces capitalization challenges. If member-customers approve the bylaw changes, they undermine the institution's ability to function consistent with cooperative principles. I appreciate FCA's desire to ensure that the capital plan features of each FCS institution are effectively communicated to their member-owners. However, rather than direct capitalization bylaw changes, the FCA could rely on board policies, directives, loan documentation or capital plans for such communication. Structurally, a board directive or similar document can accomplish the same outcome as a capitalization bylaw vote.

Board direction, along with shareholder disclosures, is more than sufficient to implement FCA's proposed Basel III framework.

2. Revise the proposed "safe harbor" provision that authorizes limited distributions, including stock retirements, without FCA prior approval to be consistent with similar provisions implemented by European bank regulators. The proposed limit of no reduction in CET1 provides no reasonable room for boards to manage capital without first seeking FCA prior approval. This burdensome requirement is far more restrictive than the approach taken by foreign bank regulators that implemented Basel III for the cooperatives under their jurisdiction. FCA should follow the same standards as these regulators and allow up to a 2% reduction in CET1 as 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 examination as there is no basis for this in Basel III.

I am confident that the refinements 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 I ask FCA to make ensure that the FCS can function consistent with cooperative principles for the benefit of its member-customers as Congress clearly intended.

I feel that it is my responsibility as a director to protect the System's cooperative structure. This cooperative structure sets us apart from other financial institutions and it has given us the ability to fulfill our mission for nearly 100 years.

I appreciate the opportunity to comment on this proposed rule and FCA's willingness to consider my feedback.

Sincerely,

Paul Franklin, Director

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