AgChoice Farm Credit
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February 13, 2015

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

Subject: Regulatory Capital, Implementation of Tier1/Tier 2 Framework

Dear Mr. Mardock:

AgChoice Farm Credit, ACA (AgChoice) appreciates the opportunity to comment on the Farm Credit Administration's (FCA or Agency) proposed rule on regulatory capital and the implementation of a tiered approach that is comparable to the Basel III framework.[1] We support the position of the Farm Credit Council (FCC) regarding the Threshold Issues that FCC raises in its comment letter to the FCA. However, we would like to specifically comment on two key issues: 1) the permanence concept in relation to allocated equities and 2) the required capitalization bylaw amendments.

Permanence of Allocated Equities

Allocated equities should be treated as permanent retained earnings and be included as Common Equity Tier 1 (CET1) regardless of planned revolvement cycles. AgChoice communicates in writing to our member-owners on an annual basis that revolvement of allocated equities occurs at the discretion of our board of directors. Thus, there should be no doubt that allocated equities represents permanent capital of the Association. AgChoice's board of directors has the ability to indefinitely defer revolvement of allocated equities when necessary in order to strengthen the cooperative. In fact, this concept was put to the test during the recent economic recession.

Prior to 2009, AgChoice's board of directors authorized patronage revolvements on allocated equities on a planned five year revolvement cycle. Given AgChoice's financial position in 2009 relative to perceived risk in the financial system, our board of directors decided to release only half of the 2003 non-qualified allocated patronage. In 2010, AgChoice's board released the second half of the 2003 non-qualified allocated patronage, essentially placing AgChoice on a planned six year revolvement cycle. AgChoice also materially reduced the amount of cash patronage it paid in 2009 and 2010 to improve its capital position. Combined with the other actions designed to build capital, AgChoice's permanent capital ratio improved from 11.11% at 12/31/2008 to 16.56% by 12/31/2011. AgChoice's permanent capital ratio stands at 18.14% as of 12/31/2014. AgChoice was one of many system institutions that took action to improve our capital position when the situation required such action.

[1] Basel III was published in December 2010 and revised in June 2011. The text is available at http://www.bis.org/publ/bcbs189.htm.

Required Capitalization Bylaw Amendments

We do not believe that Farm Credit System (FCS) institutions should be required to obtain stockholder approval of certain capitalization bylaw amendments. Given the evidence noted above relative to documentation provided to AgChoice's member-owners on an annual basis as well as the scenario noted above regarding our board's action during the recent recession, we believe that there is no expectation or pressure on FCS institutions to redeem allocated equities during times of financial stress and that FCS boards have acted prudently to manage capital. Further, a stockholder vote on these amendments are certain to create stockholder confusion. Any technical distinction required under the Basel III framework regarding treatment of retained and allocated equities as CET1 is best handled via a binding resolution by FCS institution board of directors.

Conclusion

We ask FCA to fully consider our comment and adopt all of our suggested changes in addition to those changes requested by the Farm Credit Council in their comment letter. We appreciate the opportunity to comment and FCA's consideration of our comment letter.

Sincerely,

Darrell L Curtis

Darrell L. Curtis, CEO
AgChoice Farm Credit, ACA