



PO Box 2515  
Spokane, WA 99220-2515  
Voice: 509.340.5300 Toll-Free: 800.827.6505 Fax: 509.340.5400

November 15, 2019

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

RE: Proposed Rule – Implementation of the Current Expected Credit Losses Methodology for Allowances, Related Adjustments to the Tier1/Tier 2 Capital Rule, and Conforming Amendments – RIN 3052-AD36/ Federal Register 84, No. 184 (September 23, 2019)

Dear Mr. Mardock:

On behalf of Northwest Farm Credit Services, ACA, we appreciate the opportunity to comment on the Farm Credit Administration's (FCA or Agency) Proposed Rulemaking published in the September 23, 2019 Federal Register (Proposed Rule) addressing the implementation of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No 2016-13, Topic 326, Financial Instruments-Credit Losses (hereinafter referred to as CECL) which revises the accounting for credit losses pursuant to accounting principles generally accepted in the United States (GAAP).

First, we call attention to the FASB's decision to change the effective date of CECL for certain entities, which, by definition, includes System entities. We believe that the FCA should confirm the requirement of System institutions to follow GAAP and not introduce any specific effective date within the Proposed Rule. This would eliminate the need to update FCA regulations in the event of any subsequent changes in GAAP.

We support the proposed changes which introduce "Adjusted Allowances for Credit Losses" as a newly-defined term and modify the definition of carrying value. We also support the FCA's view that the existing limit on the inclusion of the allowance in Tier 2 capital of 1.25 percent of risk-weighted assets remains appropriate.

One of the stated objectives of the implementation of new capital regulations effective January 1, 2017 was to ensure the System's capital requirements were comparable to the Basel III framework and the approach adopted by the federal banking regulatory agencies. Not adopting an optional phase-in period would diverge from that stated objective. We encourage the FCA to state in the final rule that it will work with entities on an individual basis to provide regulatory relief

similar to a transition period in the event there is a significant impact to an individual entity's regulatory ratios.

The FCA's proposed rule changes part 620.5 and 630.20 by including the following language:

The proposal would amend the analysis requirement for consistency with ASU No. 2016-13, which requires an analysis of the allowance for credit losses by year of origination (vintage year) and the allowance be supported by reasonable and supportable forecasts.

While the ASU does require disclosure of the loan portfolio and credit quality by vintage year, it does not require the disclosure of the allowance for credit losses by vintage year. Consistent with our earlier comment, we recommend that the Proposed Rule require System institutions to follow GAAP and not introduce specific disclosure requirements that may result in regulatory disclosures being different than those required by GAAP.

The proposed rule would also change portions of part 620.5 related to selected financial data disclosures and management's discussion and analysis of financial condition and results of operations (MD&A). The changes proposed include altering the definition of "Allowance for losses" to become "Allowance for credit losses" and changing a key financial ratio from "Allowance for loan losses-to-loans" to "Allowance for credit losses-to-loans".

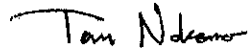
We recommend that "Allowance for loan losses" continue to be used in paragraph (f)(1)(i)(D) to eliminate the need to reconcile financial data included in the Selected financial disclosures and the GAAP balance sheet. Such reconciliation would become necessary if the allowance for off balance sheet credit exposures, which is a liability for GAAP purposes, were included within the definitions of "Allowance for credit losses" as currently proposed.

With regard to the proposed change to paragraph (f)(1)(iii)(F), we recommend that either no change be made or that the denominator of the ratio be expanded to include total off-balance sheet credit exposures. Doing so would keep both the numerator and denominator components of the ratio on a comparable basis. As currently proposed, the numerator includes the allowances for all credit exposures, both on-and-off-balance sheet, but the denominator only represents on-balance sheet loan exposures.

In addition, we request that FCA exclude any day-one impact from the year-over-year change in CET1 (Common Equity Tier 1) capital referred to in 628.20(f)(5)(ii). We believe this is appropriate so as not to impact an entity's ability to make capital distributions, including the payment of patronage, and would allow for the pre-approval process under the safe harbor provisions to continue uninterrupted.

We appreciate the opportunity to provide comments on the proposed rule and for considering our additional concerns.

Sincerely,

A handwritten signature in black ink that reads "Tom Nakano". The signature is written in a cursive style with a horizontal line above the first name.

Tom Nakano, EVP – Chief Administrative and Financial Officer

A handwritten signature in black ink that reads "Christy Burmeister-Smith". The signature is written in a cursive style with a horizontal line above the first name.

Christy Burmeister-Smith, Chair of the Audit Committee