



Informational Memorandum

September 18, 2008

To: Chairman, Board of Directors
Each Farm Credit Bank and Association

From: Andrew D. Jacob, CFA, Director
Office of Regulatory Policy

A handwritten signature in black ink that reads 'Andrew D. Jacob'.

Subject: Foreign Currency Transactions

This informational memorandum provides guidance on the permissible scope of foreign currency transactions by Farm Credit System (System) institutions. This memorandum does not apply to the statutory international and foreign exchange authorities exercised by CoBank, ACB. All other System institutions that engage in foreign currency transactions should follow this guidance.

We recognize that credit facilities involving System entities may require foreign currency transactions. Eligible borrowers with foreign customers and/or suppliers may require the ability to obtain advances and make payments in one or more foreign currencies. While only CoBank, ACB has specific authority to finance international transactions, other System institutions are not precluded from disbursing funds or accepting payments in a foreign currency under their statutory and current regulatory authority to make and participate in loans to eligible borrowers.

Institutions that participate in foreign currency transactions bear currency exchange risk. The System institution will need to purchase or sell foreign currency to accommodate its borrower. Commitments to advance or receive funds in a foreign currency at a future time create a risk that the foreign currency will change in value. All System banks and associations have incidental authority to engage in hedges or other risk management practices necessary to mitigate the risks to the bank or association.

To effectively manage risk created by foreign currency transactions, each institution should adopt appropriate policies and procedures and ensure the institution has sufficient expertise and internal controls for managing this risk. District Farm Credit Banks (FCBs) may assist affiliated associations needing foreign exchange hedging services (such as options and forward contracts) by arranging for CoBank, ACB or non-System financial institutions to provide such services. FCBs and CoBank, ACB should also consider any risks caused by associations in such transactions as they assess risks and administer provisions of the GFAs of the affected associations.

Occasionally a borrower may ask a System lender to provide or secure a hedge for risks posed by the borrower. For example, a borrower may ask an association or an FCB to arrange a foreign currency swap or purchase or sell a foreign currency option for the borrower's benefit. This is considered a "related service" for a borrower, and CoBank, ACB is the only System institution with the authority to provide such services directly to borrowers.¹ Therefore, FCBs and associations may assist their borrowers in arranging foreign exchange transactions by referring them to CoBank, ACB or non-System institutions that provide such services.

Please contact Andrew D. Jacob, CFA, Director, or Gary Van Meter, Deputy Director, Office of Regulatory Policy, at (703) 883-4414, Farm Credit Administration, 1501 Farm Credit Drive, McLean, Virginia 22102-5090, or by e-mail to jacoba@fca.gov or vanmeterg@fca.gov if you have any questions regarding this communication.

Copy to: The Chief Executive Officer
of each Farm Credit Bank and Association
Federal Farm Credit Banks Funding Corporation

¹ Section 3.7 of the Farm Credit Act; FCA rules Part 618, Subpart A – Related Services List.