CoBank
6340 South Fiddlers Green Circle
Greenwood Village, CO 80111
800-542-8072
www.cobank.com

November 26, 2018

Federal Reserve Board
Alternative Reference Rate Committee
Floating Rate Note Working Group
Submitted via Email

Dear ARRC FRN Working Group:

On behalf of the Farm Credit Banks (FC Banks), CoBank, ACB greatly appreciates the opportunity to comment on the Alternative Reference Rate Committee (ARRC) Consultation - Regarding More Robust LIBOR Fallback Contract Language for New Issuance of LIBOR Floating Rate Notes (FRNs).

The FC Banks are government-sponsored enterprises of the United States that provide loans, leases, and financial services to rural American farmers, ranchers, and agricultural and aquatic cooperatives, across all fifty states and the Commonwealth of Puerto Rico.[1] The FC Banks are: (1) AgFirst Farm Credit Bank; (2) AgriBank, FCB; (3); CoBank, ACB and (4) Farm Credit Bank of Texas. Together, the FC Banks are among the leading lenders to rural America; they provide credit for rural housing, agricultural processing and marketing activities, utilities providers, and certain farm-related businesses.

Congress created the FC Banks, as part of the Farm Credit System (FCS), to provide a permanent, stable source of credit and related services to support rural America and improve the lives of its residents. Specifically, the FC Banks, as part of the FCS, were created "to accomplish the objective of improving the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses necessary for efficient farm operations"[2]. Since its creation, CoBank was granted authorities to provide credit to rural infrastructure

[1] See generally 2017 Annual Report on the Farm Credit System by the Farm Credit Administration.
[2] 12 U.S.C. § 2001(a)

providers, who are vital to creating successful businesses and healthy rural communities.

The FC Banks are significant issuers of FRNs under our Federal Farm Credit Bank (FFCB) program. As of September 30, 2018, the FC Banks have just over $100 billion FRNs outstanding. Before addressing the questions in the ARRC FRN Consultations, the FC Banks would like to provide several general comments related to the transition from USD LIBOR to an alternative reference rate.

First, the FC Banks are concerned with what appears to be a lack of coordination between the different groups providing guidance on the transition from USD LIBOR to the alternative reference rates. This comment relates to the areas like triggers and the technical adjustments such as term adjustments and credit spread equalization. The FC Banks are very pleased the ARRC did release its Guiding Principles for More Robust LIBOR Fallbacks in July, but would have preferred that this guidance would have been completed much earlier, since these separate sub-workgroups of the ARRC and ISDA have been formed and have been working on the issues for some time. In our view this lack of coordination could create needless substantial financial basis risks to all financial institutions if, for example, triggers for different types of instruments are invoked at varying times. The FC Banks would like to encourage the ARRC to take a leadership role in encouraging greater coordination with other working groups on these issues.

Additionally, the FC Banks are also concerned that regulators do not have a full appreciation of the complexity, expense and legal ramifications related to the transition to alternative rate indexes. It would be very regrettable if global and domestic financial markets encounter a major systemic event related to this transition implementation being done too quickly because of the influence of regulators and the major broker-dealers.

Attached are the FC Bank’s current responses to the specific questions put forth in the ARRC FRN Consultation. The responses have been developed jointly by the FC Banks. This feedback represents our current thoughts and might be subject to changes as we see development in the markets and regulatory environment.

The FC Banks welcome the opportunity to discuss our comments with you. Please contact the following staff with any comments or questions:

Bank	Contact	Email
AgFirst, FCB	Josh Goethe	JGoethe@AgFirst.com
AgriBank, FCB	Luis Sahmkow	Luis.Sahmkow@agribank.com
CoBank, ACB	James Shanahan	jshanahan@cobank.com
Farm Credit Bank of Texas	Matthew Windsor	matthew.windsor@farmcreditbank.com

Sincerely,

James W. Shanahan
Vice President – Financial Regulatory Compliance
CoBank, ACB

ARRC CONSULTATION - REGARDING MORE ROBUST LIBOR FALLBACK CONTRACT LANGUAGE FOR NEW ISSUANCES OF LIBOR FLOATING RATE NOTES

Question 1(a): Should fallback language for FRNs include any of the pre-cessation triggers (triggers 3, 4 and 5)? If so, which ones?

FC Banks Response: The FC Banks would prefer that the triggers be consistent with the ISDA Consultation 1.0 recommendation with no pre-cessation triggers included. Our primary reasoning is that the banks feel that it is critical to coordinate the triggers across derivative and cash market instruments. Additionally, the banks feel that simple and very defined triggers are preferable.

Question 1(b): Please indicate whether any concerns you have about these pre-cessation triggers relate to differences between these triggers and those for standard derivatives or relate specifically to the pre-cessation triggers themselves.

FC Banks Response: The FC Banks are concerned a lack of coordination could create unnecessary index basis risk within the market. Additionally, the banks are concerned that an uncoordinated approach will also increase complexity and legal risks related to the transition.

Question 1(c): If pre-cessation triggers are not included, what options would be available to market participants to manage the potential risks involved in continuing to reference a Benchmark whose regulator has publicly determined that it is not representative of the underlying market or a Benchmark permanently or indefinitely based on a number of submissions that the Benchmark's administrator acknowledges to be insufficient to allow for production in a standard manner?

FC Banks Response: The FC Banks feel that it is the primary job of the regulators is to coordinate actions on issues like the scenarios represented in these questions. Additionally, if regulators fail to coordinate actions in these events, the legislative oversight functions should take action to force regulators to do so. Therefore, the inclusion of pre-cession triggers could create uncertainty related to an orderly transition to the alternative reference rate.

Question 2: If the ARRC has recommended a forward-looking term rate, should that rate be the primary fallback for floating rate notes referencing LIBOR even though derivatives are expected to reference overnight versions of SOFR?

FC Banks Response: The FC Banks agree with the ARRC FRN Consultation's recommendation related to including a forward-looking term rate. The FC Banks have

provided feedback for the ISDA Consultation 1.0 that it should consider adding the forward-looking term rate, as the first fallback, in the same manner as the ARRC FRN Consultation.

Question 3(a): Should Compounded SOFR be the second step in the waterfall? Would this preference be influenced by whether ISDA implements fallbacks referencing compounded SOFR or overnight SOFR?

FC Banks Response: The primary objective of the FC Banks is to coordinate the waterfalls across product lines to minimize the complexity of the transition. As such, we encourage the ARRC FRN Working Group to coordinate waterfall and triggers with other work groups and the ISDA.

Question 3(b): If you believe that Compounded SOFR should be included, which compounding period is preferable ("in arrears" or "in advance")? Would this preference be influenced by whether ISDA implements fallbacks referencing compounded SOFR "in arrears" or "in advance"?

FC Banks Response: The FC Banks do not believe that the "in advance" method is appropriate. Again, the banks do believe that coordination with the other ARRC working groups and the ISDA is the primary factor that should be considered.

Question 4(a): Would an overnight rate that remains in effect for the entire interest period be an acceptable option for investors, issuers and agents?

FC Banks Response: Again, the FC Banks do believe that coordination with the other ARRC working groups and the ISDA is the primary factor that should be considered. Keeping our primary goal in mind, the banks do not feel that it is appropriate to utilize a single overnight rate over an extended period.

Question 4(b): Should the waterfall include Compounded SOFR (step 2) and spot SOFR (step 3) and/or a simple average of SOFR (not in the waterfall at this time)? If only one of these options is included, which is preferable? Would this preference be influenced by whether ISDA implements fallbacks referencing compounded SOFR or overnight SOFR?

FC Banks Response: The FC Banks would prefer Compounded SOFR (step 2) and spot SOFR (step 3), but only if the steps are consistent with other ARRC working groups and the ISDA waterfalls.

Question 5: In the future circumstance where there is no SOFR-based fallback rate, is the replacement rate determined by the Relevant Governmental Body the best alternative at this level of the waterfall?

FC Banks Response: The FC Banks agree that if no SOFR-based fallback is available, then the replacement rate should be determined by the Relevant Governmental Body.

Question 6(a): In the future circumstance where there is no SOFR-based fallback rate and the Relevant Governmental Body has not recommended a replacement rate for FRNs, is the fallback for SOFR-linked derivatives set forth in the ISDA definitions the best alternative at this level of the waterfall?

FC Banks Response: The FC Banks agree that if no SOFR-based or Relevant Government Body recommendation exist, the next alternative should be the fallback linked to the ISDA definitions.

Question 6(b): Should this step in the waterfall refer expressly to OBFR and then the FOMC Target Rate rather than refer to the fallback rate for SOFR-linked derivatives in the ISDA definitions (which could change in the future)?

FC Banks Response: The FC Banks would prefer to see fallbacks that are consistent with other products to avoid creating additional index basis risk. Consequently, we ask the ARRC FRN Working Group to coordinate fallbacks with other ARRC working groups and the ISDA.

Question 7: Should the issuer or its designee have the ability to over-ride the ISDA fallback for SOFR-linked derivatives in the ISDA definitions at this level of the waterfall if it determines that another rate that is an industry-accepted successor rate for FRNs exists at such time?

FC Banks Response: Again, the FC Banks would prefer to see fallbacks that are consistent with other products to avoid creating additional index basis risk. Additionally, once the consistent fallback language is develop across different products, no other additional language should be added to the FRN recommendation.

Question 8: Do you believe that the ARRC should consider recommending a spread adjustment that could apply to cash products, including FRNs?

FC Banks Response: The FC Banks would like to see spread adjustments consistent with the other ARRC working groups and the ISDA recommended language. Not including any spread adjustments would create a transfer of value with the differences in the structure of the alternative fallback indexes and USD LIBOR. The banks feel that this situation is inconsistent with the ARRC's Guiding Principles for More Robust LIBOR Fallbacks.

Question 9: Is a spread adjustment applicable to fallbacks for derivatives under the ISDA definitions appropriate as the second priority in the spread waterfall when the Unadjusted Replacement Rate is equivalent to the ISDA fallback rate?

FC Banks Response: The FC Banks would like to see spread adjustments consistent with the other ARRC working groups and the ISDA recommended language. Additionally, the banks would like to see the recommended spread adjustments calculated by a third-party provider.

Question 10: If the ARRC does not recommend a spread adjustment, should the issuer (or its designee) have the ability to determine the spread adjustment (or, if step 2 is applicable, over-ride the spread adjustment for derivatives fallbacks in the ISDA definitions) and select a spread adjustment that would result in a rate that is an industry-accepted successor rate in floating rate notes at such time?

FC Banks Response: The FC Banks feel that the ARRC FRN Workgroup should include a spread adjustment consistent with other ACCR working groups and the ISDA. Additionally, not including a recommendation will be inconsistent with the ARRC's Guiding Principles for More Robust LIBOR Fallbacks.

Question 11: Whether as issuer or as calculation agent, would your institution be willing to (i) determine whether the proposed triggers have occurred, (ii) select screens where reference rates or spreads are to be found, (iii) make calculations of a rate or spread in the absence of published screen rates, (iv) interpolate term SOFR if there is a missing middle maturity and (v) make the decisions in step 6 of the Replacement Benchmark waterfall and step 3 of the Replacement Benchmark Spread waterfall?

FC Banks Response: The FC Banks would prefer not to independently determine triggers, fallbacks or adjustments unless there is no other alternative. The banks would like to see a recommendation that is consistent with the ISDA's third-party calculation solution.

Question 12: Is there any provision in the proposal that would significantly impede FRN issuances? If so, please provide a specific and detailed explanation.

FC Banks Response: The FC Banks feel that if the ARRC FRN Workgroup fails to coordinate its recommendations with other ARRC work groups and the ISDA, it will create issues that would impede future FRN issuance.

Question 13: Please provide any additional feedback on any aspect of the proposal.

FC Banks Response: Again, the FC Banks are concerned a lack of coordination could create unnecessary index basis risk within the market. Additionally, the banks are concerned that an uncoordinated approach will also increase complexity and legal risks related to the transition.