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February 5, 2019

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

Dear ARRC Securitization 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 Securitizations.

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

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

The FC Banks hold securitized investments to meet regulatory liquidity requirements. As of September 30, 2018, the FC Banks hold just under $30 billion of securitized investments. Before addressing the questions in the ARRC LIBOR Securitizations Consultation, 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 Securitizations 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:

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Sincerely,

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

ARRC CONSULTATION NEW ISSUANCES OF LIBOR SECURITIZATIONS

Question 1: Which securitization asset classes are you referring to in your response to this consultation if limited to only certain asset classes? If there are particular features of these asset classes that shape your responses to the questions in this survey, please describe them to the extent possible.

FC Banks Response: The FC Banks are primarily concerned with Residential Mortgage Backed Securities Collateralized Mortgage Obligations. Additionally, the banks also are considering Asset Backed Securities and Commercial Mortgage Backed Securities.

Question 2: The ISDA triggers contemplate a permanent cessation of LIBOR as of a date certain which may be announced in advance (the "Cessation Date"), at which point the transition from LIBOR to SOFR would occur. As there may be operational challenges for securitizations as both assets and liabilities will have to be transitioned, some have asked for the ability to transition in advance of the Cessation Date in order to address any operational issues that may arise. Specifically, the Designated Transaction Representative (as defined in Appendix I) will have the ability to pick one date within a 30-day period prior to the Cessation Date to facilitate an orderly transition. Do you feel the inclusion of this ability to transfer prior to the Cessation Date is needed? If so, please explain the specific, critical and tangible needs that support its inclusion?

FC Banks Response: The FC Banks' initial reaction is that this might actually create operational issues and basis risk, if transactions do not move on a coordinated date across asset classes. We question if this feature is consistent with the ARRC Guiding Principles. Additionally, would ask the question of how the Designated Transaction Representative (DTR) have any influence on the underlying assets?

Question 3(a): Should fallback language for Securitizations include any of the pre-cessation triggers (clauses (3), (4), (5) and (6) of the Benchmark Discontinuance Event definition)? If so, which ones? Also, please identify any pre-cessation triggers that you do not believe should be utilized for a particular securitization product and explain why.

FC Banks Response: The FC Banks feel the main issue that needs to be addressed is the coordination of triggers across asset classes, as discussed above. The banks do see the possible need to consider pre-cessation trigger (6), considering the additional risk that a mismatch of the timing within the underling transactions and the securitization could create. This risk, which is unique to *securitizations might merit being included to protect the integrity of the securitization.*

Question 3(b): Please indicate whether any concerns you have about these pre-cessation triggers relate to the differences between these securitization triggers and those for standard derivatives or whether your concerns relate specifically to the pre-cessation triggers themselves.

FC Banks Response: The FC Banks question the need for the triggers (3 through 5) based on our opinion that these pre-cessation events should be address by the benchmark administrator or the regulatory supervisor for the administrator, as part of their function. Consequently, the banks do not see a need to include them. Again, the primary concern of the banks relates to ensuring coordination of the triggers across asset classes as appropriate.

Question 3(c): If you believe that the pre-cessation trigger in clause (6) (Asset Replacement Percentage) should not be retained, please note any specific concerns leading to this conclusion. If you believe that it should be retained, are there any changes you believe should be made to this trigger? Please explain.

FC Banks Response: The FC Banks feel that the inclusion of pre-cessation trigger in clause (6) should be considered. This trigger, in our opinion, could reduce the possibility of cash-flow shortfalls related to index mismatches. At this time, the banks do not see the need to modify the trigger.

Question 3(d): If you believe the pre-cessation trigger in clause (6) (Asset Replacement Percentage) should be retained, how would you address concerns that it could result in a transfer of value in a transaction where the Designated Transaction Representative has the ability to change the benchmark used on the underlying assets and, as a result, determine the timing of this pre-cessation trigger? Are there other changes that should be made to the Asset Replacement Percentage trigger? Note that this trigger relates to a mismatch between the securities and the Securitization assets that results from changes in the assets. A mismatch may also arise from a change in the securities due to a trigger event under these fallback provisions. Any concerns with the latter scenario can be addressed in responses to Question 16.

FC Banks Response: The FC Banks understand that DTR could influence the timing of the securities movement to the alternative reference rate and is why we questioned whether to allow the DTR to have influence on the underlying assets in Question 2.

Question 3(e): If pre-cessation triggers are not included, are there options available to market participants to manage the potential risks involved in continuing to reference a Benchmark in the circumstances contemplated by each of these pre-cessation triggers?

FC Banks Response: The FC Banks feel that market participants always have the option of liquidating positions that they feel have potential risks.

Question 4: Should the proposed securitization fallback language permit the Designated Transaction Representative to transition the securities after a trigger has occurred but before the Benchmark Replacement Date? Should any limitations be placed on its use? Should there be a limited date range (e.g., 60 days) prior to the Benchmark Replacement Date in which this could be used? Should the Designated Transaction Representative be limited in the circumstances under which it could elect to utilize the additional time? If so, what standard should be utilized to assess whether the additional time is necessary? In each case, please explain why.

FC Banks Response: The FC Banks question if allowing the DTR to have discretion in determining the date of transition is consistent with the ARRC Guiding Principles. Further, allowing for this type of discretion could unnecessarily increase the basis risk.

Question 5(a): If the ARRC has recommended a forward-looking term rate, should that rate be the primary fallback for the securities referencing LIBOR even though derivatives are expected to reference overnight versions of SOFR? Please explain why.

FC Banks Response: The FC Banks also have advocated for the primary fallback to be the forward-looking term rate. The banks plan to make this recommendation to the ISDA in the US Dollar consultation, once it has been released.

Question 5(b): Is there a specific reason that the securitization market should first fall back to forward-looking term SOFR instead of another rate? Please explain why.

FC Banks Response: The FC Banks feel that the lack of the development of a forward-looking term structure is the major impediment to the adoption of the SOFR based rates in cash market transactions. Attempts to move the cash market to daily rates will be met with resistance. Additionally, the primary function of the derivative markets should be to hedge cash market transactions and should reflect the characteristic of those instruments to provide an effective hedge.

Question 5(c): Is the use of an Interpolated Period appropriate in the securitization markets? Please explain any limitations that should be applied to the use of an Interpolated Period.

FC Banks Response: The FC Banks do not see the use of Interpolated Periods as appropriate in most securitizations.

Question 5(d): In the event a Replacement Benchmark is determined other than under Step 1 of the waterfall, should the waterfall provide that the Replacement Benchmark be changed in the future as soon as a rate can be established under Step 1 of the waterfall?

FC Banks Response: The FC Banks would support that in the event the Replacement Benchmark is determined to be anything other than Step 1 Forward-looking Term SOFR and at a later date Step 1 can be adopted, we would support an additional transition to the Forward-looking Term SOFR alternative.

Question 6(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 FC Banks would prefer that Compounded SOFR be the second step in the fallback, but would prefer that all fallback be coordinated with other ARRC workgroups and the ISDA USD Benchmark Workgroup.

Question 6(b): If you believe that Compounded SOFR should be included, which compounding period is preferable ("in arrears" or "in advance")? Please explain why. Would this preference be influenced by whether ISDA implements fallbacks referencing Compounded SOFR "in arrears" or "in advance?" Please explain whether your preference is based on operational concerns in implementing a particular approach or on economic concerns.

FC Banks Response: The FC Banks would prefer that Compounded SOFR "in arrears" be the second step in the fallback. The banks do not feel that the "in advance" method is appropriate because it creates a mismatch in the instruments rate with current costs.

Question 6(c): If it was necessary to calculate Compounded SOFR and a third party was not available to perform those calculations, are there parties to the Securitization transactions with sufficient resources to perform those calculations accurately and efficiently? Are there other considerations relating to the calculation of Compound SOFR that would make it an undesirable Replacement Benchmark without the availability of a third party provider?

FC Banks Response: The FC Banks would hope that parties to a transactions would be able to calculate Compound SOFR with or without a third party. The banks do not see other considerations.

Question 7: As noted, this consultation does not include Spot SOFR as a third step in the waterfall. Do you believe that Spot SOFR is an appropriate fallback reference rate for Securitization contracts or should the second step in the replacement rate waterfall be Compounded SOFR , after which the replacement rate would be, first, recommended by the Relevant Governmental Body, second, default to then-current ISDA Definitions, and third, proposed by the Designated Transaction Representative?

FC Banks Response: The FC Banks do not feel that Spot SOFR is an appropriate fallback. The banks agree that the consultations other fallback are appropriate in order.

Question 8: 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? Please explain why.

FC Banks Response: The FC Banks feel that if no SOFR-based fallback is available, then the Relevant Governmental Body should determine the best alternative rate.

Question 9: In the future circumstance where there is no SOFR-based fallback rate and the Relevant Governmental Body has not recommended a replacement rate for Securitizations, is the fallback for SOFR-linked derivatives set forth in the ISDA definitions at the time of cessation the best alternative at this level of the waterfall? Is this fallback appropriate if ISDA Definitions only include overnight fallback rates? Please explain why.

FC Banks Response: The FC Banks would agree with the assumption that if the Relevant Governmental Body has not recommended the replacement rate, then coordination with the ISDA definitions is the next best alternative.

Question 10(a): Since it is unlikely that there will be no ISDA fallback (clause (a) above), this provision is more likely to occur (if at all) when the ISDA fallback is deemed not appropriate for securitization securities (clause (b) above). In that scenario, is this provision appropriate as the final step in the Replacement Benchmark waterfall? Please explain why.

FC Banks Response: The FC Banks feel that in the remote scenario that all other fallbacks are not available that a DTR should determine the index. Note that the banks continue to advocate for adding the provision that will allow for the subsequent conversion to Forward-Looking Term SOFR, if it would become available at the later time.

Question 10(b): Should the provision allow for "re-testing" the waterfall to determine whether another Replacement Benchmark has become available in the scenario where investors have rejected the Proposed Replacement Benchmark? Should the waterfall be re-tested in any other circumstances (e.g., any time the Replacement Benchmark has been determined under a "less-desirable" clause)? How often? Please explain why.

FC Banks Response: Again, the FC Banks continue to advocate for adding the provision that will allow for the subsequent conversion to Forward-Looking Term SOFR, if it would become available at the later time.

Question 11: Are there any concerns if a spread adjustment was utilized with cash products that was calculated by a spot rate comparison of the difference between LIBOR and the Replacement Base Rate at the time of conversion? Should this option be included in the spread waterfall? If so, where?

FC Banks Response: The FC Banks would prefer that any spread adjustment be consistent with the spread adjustments proposed by other ARRC workgroups and the ISDA USD Benchmark Workgroup, as our primary consideration. The banks do not feel that a spot adjustment is preferable and advocate for an adjustment based on averages.

Question 12: Do you believe that the ARRC should consider recommending a spread adjustment that could apply to cash products, including Securitizations?

FC Banks Response: The FC Banks would prefer that any spread adjustment be consistent with the spread adjustments proposed by other ARRC workgroups and the ISDA USD Benchmark Workgroup.

Question 13(a): Is a spread adjustment applicable to fallbacks for derivatives under the ISDA definitions appropriate as the second priority in the spread waterfall? Please explain why.

FC Banks Response: The FC Banks would hope that the Relevant Governmental Body would make a recommendation, but if not the next best source would be the ISDA definitions.

Question 13(b): If the ARRC has recommended a forward-looking term SOFR but has not recommended a corresponding spread adjustment under Step 1 above, do you believe that the ISDA spread adjustment described in Step 2 (which may be intended to apply to a different Replacement Base Rate) should apply to Securitizations? Please explain why.

FC Banks Response: The FC Banks would agree that the proposed Replacement Benchmark Spread Waterfall is appropriate. The banks would advocate for coordination of all spread adjustments with other ARRC workgroups and the ISDA USD Benchmark Workgroup.

Question 13(c): Given that ISDA has not yet decided upon the spread calculation methodology16, should Step 2 be excluded from the waterfall? Please explain why.

FC Banks Response: The FC Banks feel that the proposed Replacement Benchmark Spread Waterfall is appropriate.

Question 14(a): What type of institution can and should take on the responsibility 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/or (v) elect to cause an early transition under the proviso to the definition of Benchmark Replacement Date?

FC Banks Response: The FC Banks would advocate for the "issuer" of any security to be the party acting as the DTR.

Question 14(b): Whether as issuer, sponsor, servicer or 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/or (v) elect to cause an early transition under the proviso to the definition of Benchmark Replacement Date?

FC Banks Response: The FC Banks or our agent (Federal Farm Credit Funding Corporation) would be willing to act as the DTR on any securities issued by the banks.

Question 15: Is there any provision in the proposal that would significantly impede Securitization issuances? If so, please provide a specific and detailed explanation.

FC Banks Response: The FC Banks do not see any provisions that should significantly impede securitized issuance.

Question 16: Given the fallback language for the Securitization and the underlying assets may operate independently, please identify any sources of misalignment between those components that are not addressed in the consultation.

FC Banks Response: The FC Banks would advocate for a coordinated transition for all transactions, and hope the ARRC would take the lead in supporting a coordinated approach.

Question 17: Are there specific operational challenges that implementing the proposed fallback language might create for securitizations? If so, what are those challenges and under what circumstances might they occur? How might they be mitigated?

FC Banks Response: The FC Banks again would advocate for a coordinated transition for all transactions, and hope the ARRC would take the lead in supporting a coordinated approach.

Question 18: Please provide any additional feedback on any aspect of the proposal.

FC Banks Response: None at this time.