AgCountry® Farm Credit Services

1900 44th St. S. • P.O. Box 6020 • Fargo, ND 58108-6020
(701) 282-9494 • Toll Free: 800-450-8933 • www.agcountry.com

November 26, 2018

Federal Reserve Board
Alternative Reference Rate Committee
Syndicated Business Loan Working Groups
Submitted via Email

Dear ARRC Secretariat:

AgCountry Farm Credit Services greatly appreciates the opportunity to comment on the Alternative Reference Rate Committee (ARRC) Consultation - Regarding More Robust LIBOR Fallback Contract Language for New Originations of LIBOR Syndicated Business Loans (SBLs).

As an entity within the Farm Credit System, AgCountry provides loans, leases and other financial services to agribusinesses and rural utility providers in addition to farmers and ranchers. Before addressing the questions in the ARRC SBLs Consultation, AgCountry would like to provide some general comments related to the transition from USD LIBOR to an alternative reference rates.

AgCountry believes, as does the ARRC, that coordination between the different groups that are providing guidance on the transitions from the USD LIBOR to the alternative reference rates is imperative. Conversely, lack of coordination could create substantial financial basis risks to financial institutions. The ARRC should continue to take a leadership role in encouraging greater coordination with other working groups on these issues.

Attached are AgCountry's responses to the specific questions put forth in the in the ARRC FRN Consultation. This feedback represents our current thoughts and might be subject to changes as we see development in the markets and regulatory environment.

AgCountry welcomes the opportunity to discuss our comments with you. Please contact me at (701) 499-2551 or jeremy.oliver@agcountry.com.

Sincerely,

Jeremy Oliver

Jeremy Oliver
CFO
AgCountry Farm Credit Services

ARRC CONSULTATION REGARDING MORE ROBUST LIBOR FALLBACK CONTRACT LANGUAGE FOR NEW ORIGINATIONS OF LIBOR SYNDICATED BUSINESS LOANS

Question 1. If the ARRC were to adopt one or more sets of business loan fallback language, which one or both of the recommended provisions (i.e., amendment approach and/or hardwired approach), in your view, is an appropriate policy? If you believe the amendment approach is more appropriate at present, what specific information (for instance, existence of term SOFR) would you need in order to get comfortable eventually adopting a hard-wired approach? Why?

AgCountry prefers the hardwired fallback language. While it will refer to trigger events, reference rates and spreads that either or not, or may not be fully functional, we believe it is essential for these mechanisms to be develop in order for the market to enable replacement of LIBOR. From that perspective, our assumption is that such mechanisms will be in place when needed. The hardwired approach should reduce negotiation time and risk and help get a more firm structure in place on a timely basis, in our opinion.

Question 2. (a) Should fallback language for business loans include any of the pre-cessation triggers (triggers 3, 4 or 5)? If so, which ones?

Yes, we believe pre-cessation triggers as defined under Benchmark Discontinuance Event should be included. We believe events identified as 4 and 5 should be included. Our assumption would be that the administrator would make an appropriate determination of when the market is too thin to remain a reference, creating a redundancy with 3.

(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.

Concerns related specifically to the triggers, as explained previously.

(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?

Without triggers, if the triggering events were to occur the market would have to move to other fallback provisions in our opinion. Depending on the contract terms such options may include converting floating to fixed rates, or moving to Prime based. Continuing to reference an unreliable or unavailable benchmark would create significant risks both for lenders and borrowers.

Question 3. (a) Is an "opt-in" trigger appropriate to include? Why or why not? (b) If you do believe an "opt-in" trigger should be included, do you prefer the approach in the hardwired proposal or the amendment proposal? Please explain.

- *We believe an opt-in trigger is appropriate to enable more timely transition and to increase the viability of the SOFR structures as they develop and mature.*
- *We prefer the hardwire proposal as it provides for a more definitive determination of when it is appropriate to consider an "opt-in" position. The final decision would still be made by a majority or super-majority of the lenders, providing lender protection.*

Question 4. Are there any other trigger events that you believe should be included for consideration? If yes, please explain.

No.

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

Yes, we believe the forward-looking term rate(s) which best match duration of the LIBOR reference rate that is being replaced should be the primary fallback for these loans. The belief is based on the assumption that by establishing this waterfall in contractual terms the development of SOFR based term mechanisms will be encouraged and further, that the Relevant Governmental Body will select or endorse appropriate forward-looking term rates. We believe these rates are needed to create a more robust and mature market structure for SOFR referenced loans.

Question 6. Should the administrative agent (by itself or with some other party) be able to eliminate certain interest period options if there are no equivalent SOFR terms available? If so, consider the following options: (i) the administrative agent (and/or some other party) may remove all interest periods for which there is not a published term rate or (ii) the administrative agent (and/or some other party) may remove only the interest periods for which there is not a published term rate and a term rate cannot be interpolated. Which of the options do you support? Why?

Yes, we believe the administrative agent should be able to eliminate certain interest period options. We prefer option (i) as it provides for removal of interest periods for which there is no reference rate, while still allowing for interpolation, if possible, to best match the pricing duration originally agreed upon.

Question 7. Should "Compounded SOFR" be included as the second step in the waterfall? Why or why not? Would this preference be influenced by whether ISDA implements fallbacks referencing compounded SOFR or overnight SOFR?

Yes, we believe Compounded SOFR is appropriate as the second step. This provides a calculated methodology of arriving at a rate for the original pricing term (duration) when an SOFR term structure doesn't exist or rate cannot be determined to match the original pricing term. The preference would be stronger if the ISDA also implements fallbacks with compounded SOFR.

Question 8. If you believe that Compounded SOFR should be included, would a Compounded SOFR in advance or Compounded SOFR in arrears be preferable for syndicated loans? Please explain.

A compounded SOFR in advance is needed to provide the needed interest rate information required for lending and financial systems and to inform borrowers of the ongoing interest cost on the loan.

Question 9. Is Overnight SOFR an appropriate fallback reference rate for syndicated loans or should the final step in the replacement rate waterfall be Compounded SOFR (after which the hardwired approach defaults to a streamlined amendment process)? Would this preference be influenced by whether ISDA implements fallbacks referencing compounded SOFR or overnight SOFR? Please explain.

We prefer elimination of the Overnight SOFR in the final step in the waterfall for determining the reference rate before the amendment process, for loans with indexed pricing durations of several weeks or months. It is too volatile to be an ideal reference for indexed rate terms that extend over several weeks or months, creating significant funding and system rate adjustment issues. We don't believe ISDA references to overnight SOFR would influence this position as the term priced lending structures would not match up well. Requiring this as a waterfall step is the issue for us. It may be a structure that is arrived at as the best approach in the amendment negotiations.

Question 10. Is it acceptable to fix one observation of Overnight SOFR as the reference rate for a loan lasting three months (or longer)? Would lenders refuse to offer longer-duration loans if they were priced over one Overnight SOFR observation? Please explain.

We believe it may be acceptable if there is a vehicle for funding that provides adequate protection for funding risk on this mismatched duration. Absent this, it would create undue liability risk and could result in lenders refusing to offer longer-duration loans.

Question 11. Is there any another replacement rate that should be added to the hardwired approach waterfall before parties move to the streamlined amendment process? If so, what is the appropriate rate or rates and at which stage in the waterfall should they be applied?

We do not believe it is appropriate to require other replacement rates in the waterfall before moving to the negotiation process.

Question 12. Do you believe that the ARRC should consider recommending a spread adjustment that could apply to cash products, including syndicated business loans?

While this approach removes flexibility from the lenders in determining appropriate spread adjustment, we support the approach from the perspective that the market isn't currently functioning so there is no historical support, or current indications beyond overnight SOFR. Further we believe that it is appropriate to create confidence in the market and believe this would help do so. It will also remove the challenges of negotiating appropriate spread on a one-by-one basis.

Question 13. Is a spread adjustment applicable to fallbacks for derivatives under the ISDA definitions appropriate as the second priority in the spread waterfall even if syndicated business loans may fall back at a different time or to a different rate from derivatives? Please explain.

Using spreads intended for derivatives is concerning as they will not be validated for non-derivatives, including loans. Although spreads may prove to have a strong correlation between derivatives and loans, this isn't known. We believe a better approach is to allow this determination to be made through the negotiated amendment process.

Question 14. Is there any another spread adjustment that should be added to the hardwired approach spread waterfall before parties move to the streamlined amendment process? If so, what is the appropriate spread and at which stage in the waterfall should it be applied?

We are not aware of any other spread adjustment which should be added.

Question 15. (a) Under the amendment approach proposal, if parties are selecting a replacement rate through the amendment process, should the objection of the Required Lenders be by class (if applicable) (see clause (b) of the section titled "Effect of Benchmark Discontinuance Event" in Appendix I)? Why or why not?

We would prefer the objection to not be by class to avoid a small class of lenders from holding the rest of the lenders "hostage" in effect.

(b) Under the amendment approach proposal, if parties choose to select a replacement rate through the "opt-in" amendment process, should the affirmative consent of the Required Lenders be by class (if applicable) (see clause (b) of the section titled "Effect of Benchmark Discontinuance Event" in Appendix I)? Is affirmative consent appropriate or should negative consent be considered instead? Please explain.

We would prefer the objection to not be by class to avoid a small class of lenders from holding the rest of the lenders "hostage" in effect.

Question 16. (a) Under the hardwired approach proposal, if parties must fallback to selecting a replacement rate through the amendment process because none of the options in the replacement rate waterfall are available, is the objection of the Required Lenders by a class appropriate (if applicable) (see clause (d) of the section titled "Effect of Benchmark Discontinuance Event" in Appendix II)? Why or why not?

We would prefer the objection to not be by class to avoid a small class of lenders from holding the rest of the lenders "hostage" in effect.

b) The hardwired approach proposal provides two bracketed options for a successful declaration of the "opt-in" amendment process - Required Lenders (typically a majority) vs. supermajority (2/3) of lenders (see clause (B) of the definition of "Benchmark Transition Determination" in Appendix II). What should be the standard affirmative lender voting threshold for consenting to the "opt-in"? Please explain.

We believe that it is best to have a simple majority opt-in vote. This will again avoid a smaller than majority group from holding the majority hostage.

Question 17. For respondents that act as administrative agents in the syndicated business loan market, would your institution be willing to (i) work with the borrower to identify a new reference rate or spread adjustment, (ii) determine whether triggers have occurred, (iii) select screen rates where reference rates are to be found, (iv) interpolate term SOFR if there is a missing middle maturity and, (v) execute one-time or periodic technical or operational amendments to allow the administrative agent to appropriately administer the replacement benchmark? Please respond to each and explain.

In the role of administrative agent we would either directly assume responsibility or contract for agents to identify new reference rates or spread adjustments, monitor triggers for occurrence, identify and select screens for reference rates, interpolate term SOFR if needed, or execute one-time or technical operational amendments to facilitate administration of the replacement benchmark. We believe that if a lender assuming responsibility to originate a syndication must have the responsibility and provide the expertise to appropriately administer the rate structure.

Question 18. Is it necessary that any replacement rate and/or applicable spread adjustment be published on a screen by a third party? Why or why not?

For purposes of clarity for the syndicators we believe both reference rates and spread adjustments should be published. We do not, however, believe it is necessary for a third party to publish. The reason for this is that if the reference rate for term SOFR is not available, for instance, the administrative agent may calculate an interpolation and publish the information for the syndicators.

Question 19. Given that market practices and conventions may change over time, should the administrative agent's limited ability to make conforming changes be available only at the point of transition or on a periodic, ongoing basis? Why or why not?

We believe that the limited ability to make conforming changes should be available on an ongoing basis. With the implementation of a new SOFR reference rate structure there are many unknowns regarding how quickly the market and mechanisms will reach full maturity. For this reason we believe it is best to have ongoing capability to make conforming changes.

Question 20. How important is it for the fallback rate to be available prior to making a borrowing/advancing funds? For instance, if the rate was a compounded three-month rate calculated at the end of the interest period, would that be problematic? Please explain.

It is important (critical) for the fallback rate to be available prior to making advances on the loan. Lending systems calculate interest on a daily balance basis. Retroactive calculation would also affect the general ledger accuracy, financial reporting and the internal control environment.

Question 21. Are there operational concerns about having the ability to convert many loans over a very short period of time? Please explain.

The operational challenges identified are: potential for variance in legal agreements and rights regarding reference rates and pricing; need for consistent approach and structures to reset reference rates to avoid one-by-one negotiation; making system changes to accommodate new reference rate(s); ensuring *accurate communication of the rate structure and the rate to the customer and syndicators; and having a consistent approach such that system conversions can be completed on groups of loans and not on a one-at-a-time basis.*

Question 22. Do you see other operational challenges that fallback language should acknowledge or of which the ARRC should be aware? Please explain.

None identified.

Question 23. What modifications to the syndicated loan consultative language may be helpful to market participants as they consider more robust fallback language in a bilateral or single-bank business loan context, if any? Please explain. Specifically, what modifications to the language may be appropriate in instances in which the bilateral loan is fully or partially hedged? Please explain.

Question 24. Are there any provisions in the fallback language proposals that would significantly impede syndicated loan originations? If so, please provide a specific and detailed explanation.

We are concerned that the waterfall requirement to move to the SOFR overnight rate could impede syndicated loan origination with reference rate term pricing.

Question 25. Please provide any additional feedback on any aspect of the proposals.

Trust of the expertise and decisions made by the Relevant Governmental Body is essential to this proposal being well accepted. Further, the extent to which the SOFR reference rate is accepted is highly dependent on robust term reference rates. To this end, timely and transparent communication of plans to develop the SOFR term rates and spread references is essential.