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February 5, 2019

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

Dear ARRC Bilateral Business Loan Working Group:

On behalf of the Farm Credit Banks (FC Banks) listed below, CoBank, ACB 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 Bilateral Business Loans (BBLs). This letter is submitted as a supplement to the letter submitted by all the Farm Credit Banks and contains our responses to the BBLs' specific questions.

The FC Banks included in this response are: (1) AgFirst Farm Credit Bank; (2) CoBank, ACB and (3) Farm Credit Bank of Texas.

Attached are FC Banks' current responses to the specific questions put forth in the ARRC BBLs Consultation. 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 me at (303) 793-2288 or jshanahan@cobank.com.

Sincerely,

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

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

Question 1. If the ARRC were to adopt one or more sets of bilateral 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?

FC Banks Response: At this time in the LIBOR Transition process, the FC Banks would recommend that the amendment approach would be more appropriate. The primary reasoning is related to the amount of uncertainty around the development of the alternative reference rate market. When more certainty develops around the alternative rates, then adoption of a hardwired approach might be appropriate.

Question 2. Beyond your response to Question 1, are there product or transaction types, or methods of documenting transactions, for which either of the fallback approaches would be problematic? If so, please explain. What other approach would you suggest?

FC Banks Response: The FC Banks are not aware of transactions that the fallback approach would be problematic.

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

FC Banks Response: The FC Banks would prefer that the triggers are consistent with the ISDA recommendation with no pre-cessation triggers included. Our primary reasoning is we feel that it is critical to coordinate the triggers across derivative and cash market instruments. Additionally, the banks feels that simple and very defined triggers are preferable. In addition, because bilateral loans tend to have shorter documentation than syndicated loans, there should be a heightened focus on keeping these provisions as concise and clear as possible.

(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.

(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 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 function should take action to force regulators to do so. Therefore, the inclusion of pre-cessation triggers could create uncertainty related to an orderly transition to the alternative reference rate.

Question 4. (a) Is an "opt-in" trigger appropriate to include? Why or why not?

FC Banks Response: The FC Banks would prefer to utilize ISDA's triggers consistent with their approach. Again, the banks feel that inclusion of additional triggers could create additional basis risk and increase the complexity and legal risk of a transition to an alternative reference rate.

(b) Do you believe an "opt-in" trigger should be included in both the hardwired and amendment proposals or only in one (please specify which and explain).

FC Banks Response: The FC Banks would prefer to utilize the two ISDA's triggers, as state previously.

Question 5. Are there any other trigger events that you believe should be included for consideration? If yes, please explain.

FC Banks Response: The FC Banks do not support the inclusion of other trigger events, for the reasons previously stated.

Question 6. If the ARRC has recommended a forward-looking term rate, should that rate be the primary fallback for bilateral business loans referencing LIBOR even though derivatives are expected to reference overnight versions of SOFR? Please explain.

FC Banks Response: The FC Banks agree with the ARRC Bilateral Consultation's recommendation related to including a forward-looking term rate. The banks have provided feedback for the ISDA Consultation 1.0 that they should consider adding the forward-looking term rate, as the first fallback, in the same manner as the ARRC Consultations.

Question 7. Should the Lender be able to eliminate certain interest period options if there are no equivalent SOFR terms available? If so, consider the following options: (i) the Lender may remove all interest periods for which there is not a published term rate or (ii) the Lender 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?

FC Banks Response: The FC Banks believes that, if no equivalent SOFR term rates are available, the Lender should remove only the interest rate periods that are not published or could not be determined by interpolation.

Question 8. 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?

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, the banks encourage the ARRC Bilateral Working Group to coordinate waterfall and triggers with other ARRC working groups and the ISDA.

Question 9. 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 believe that coordination with the other ARRC working groups and the ISDA is the primary factor that should be considered.

Question 10. As noted, this consultation does not include Overnight SOFR as a final step in the waterfall. Do you believe that Overnight SOFR is an appropriate fallback reference rate for bilateral business 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)?

FC Banks Response: The FC Banks do not believe that including a single observation of Overnight SOFR which is held for some period of time is appropriate. Again, the ARRC should work to provide coordination with other ARRC work groups and the ISDA in determining the appropriate fallback reference rates.

Question 11. Is there any other 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? Please explain.

FC Banks Response: The FC Banks do not feel that another replacement rate should be added to the hardwired waterfall as long as it is coordinated across product lines.

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

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 and is inconsistent with the ARRC Guiding Principles for More Robust LIBOR Fallbacks.

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

FC Banks Response: Again, the FC Banks would like to see spread adjustments consistent with the other ARRC working groups and the ISDA recommended language. The primary reason would be to limit the amount of hedge ineffectiveness and transfer of value from the change.

Question 14. Is there any other 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?

The FC Banks Response: Again, the FC Banks would like to see spread adjustments consistent with the other ARRC working groups and the ISDA recommended language.

Question 15. For respondents that act as Lenders in the bilateral 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 LIBOR or term SOFR if there is a missing middle maturity, and (v) execute one-time or periodic technical or operational amendments to appropriately administer the replacement benchmark? Please respond to each and explain.

FC Banks Response: If the FC Banks were acting as the lender in a transactions, they would be under the obligation to meet all of the requirements listed above.

Question 16. In any of these situations, should the Lender have the right to take the relevant action, for example to designate loan terms unilaterally within the framework of either Appendix I or Appendix II, simply by notice to the Borrower? Alternatively, should the lender have the right to take such action, subject only to the Borrower's right to withhold consent? Please explain which approach, or what alternative approach, you think would be better.

FC Banks Response: The FC Banks feel that it might be problematic for the lender to have the right to act unilaterally without some form of regulatory consent or "safe harbor" determined by the relevant governmental body.

Question 17. 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?

FC Banks Response: The FC Banks believe that having any spread adjustments published by a third party would be a positive to the transition of contract from LIBOR to the alternative reference rates.

Question 18. Given that market practices and conventions may change over time, should the Lender'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?

FC Banks Response: The FC Banks believe that any changes such as discussed in this question should be done in coordination with the endorsement from the relevant governmental body.

Question 19. Are there operational concerns about having the ability to convert many loans over a very short period of time? Please explain.

FC Banks Response: The FC Banks are concerned about the operational risk of converting a large amount of loans in a short-period, but feels that having different loans, other cash products and derivatives convert in an uncoordinated manner would create unneeded levels of basis risk in the market. Additionally, a lack of coordination might lead to a global or domestic systemic market event.

Question 20. Do you see other operational challenges that fallback language should acknowledge or of which the ARRC should be aware? For example, both approaches to fallback language involve various notices from the Lender14 – do these requirements and the resulting communications between parties impose undue operational burdens? Please explain.

FC Banks Response: The FC Banks feel that the ARRC and regulators need to understand the risks of forcing the LIBOR transition process to occur too fast, which will create unnecessary risk to the global and domestic markets.

Question 21. If bilateral business loans fall back to a different rate from derivatives, how do market participants expect to handle the interplay of loans and their hedges? Would market participants expect that current swaps would be terminated and a new swaps entered into once the loan has transitioned?

FC Banks Response: The FC Banks believe the lack of coordination between the derivative and cash market would create unnecessary basis risk within the financial system. If this situation does occur, the banks would consider it a failure of the ARRC, other industry groups and the regulatory community. The banks would need to evaluate the basis risk which was created and the cost of managing the correction of the basis risk.

Question 22. Would market participants that execute interest rate hedges prefer to fall back to the same rate and spread that becomes operative under the ISDA Definitions even if a term SOFR is available? If so, please provide comments on the proposal for hedged loans set forth in Appendix VI, including a discussion of any operational concerns. Please provide comments on any other approaches you think could be useful in addressing fallbacks in loans and related hedges.

FC Banks Response: The FC Banks would hope that the ISDA USD Benchmark Workgroup will adjust the USD ISDA Consultation to have the first fallback in the waterfall to have forward-looking term SOFR. The banks question the chance for success of any ISDA proposal that fails to have forward-looking term SOFR.

Question 23. When a loan is only partially hedged, either by a swap that is not coterminous with the loan's maturity or a swap the notional amount of which is less than the loan amount (or the portion of the loan accruing interest based on LIBOR), should a trigger event result in the entire loan balance converting to the fallback benchmark? Would it be operationally practical to align only the hedged portion's terms with the terms of the swap? What other concerns would market participants anticipate in operationalizing dynamic tranching of a partially hedged loan?

FC Banks Response: The FC Banks would encourage the ARRC to coordinate the transition, including transition of the entire loan at the one point in time, whether the loan is partially hedge or fully hedged. The banks feel any partial transition of transactions would create unnecessary complexity.

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

FC Banks Response: Again, the FC Banks would like to see a coordinated approach by all ARRC Workgroups and the ISDA in determining fallback trigger and methodologies. Failure of the ARRC Bilateral Loan Workgroup to work with other ACCR Workgroups and the ISDA could create impediments to new bilateral loan originations.

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

FC Banks Response: None at this time.