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November 26, 2018

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

Dear ARRC Syndicated 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 Syndicated Business Loans (SBLs). This letter is submitted as a supplement to the letter submitted by all the Farm Credit Banks and contains our responses to the SBLs' 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 SBLs 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 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?

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. (a) Should fallback language for 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 that 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.

(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 feels that it is the primary job of the regulators to coordinate actions on issue 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 3. (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 the approach. Again, the banks feels that inclusion of additional triggers could create additional basis risk and increase the complexity and legal risk of a LIBOR transition.

(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.

FC Banks Response: The FC Banks would prefer to utilize ISDA's triggers consistent with the approach.

Question 4. 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.

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.

FC Banks Response: The FC Banks agrees with the ARRC SBLs 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 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?

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

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?

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 FRN Working Group to coordinate waterfall and triggers with other ARRC working groups and the ISDA.

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.

FC Banks Response: The FC Banks does 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 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.

FC Banks Response: The FC Banks believes 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 would prefer compounded SOFR and does not feel that it is appropriate to utilize a single overnight rate over an extended period.

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.

FC Banks Response: Again, the FC Banks believes that coordination with the other ARRC working groups and the ISDA is the primary factor that should be considered. As for lenders refusing to offer longer-duration loans, the banks would need to make a determination of the economic impact of the pricing and might resist entering into 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?

FC Banks Response: The FC Banks does not feel that another replacement rate should be added to the hardwired waterfall.

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

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. (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?

FC Banks Response: The FC Banks believes that the objective of the Required Lenders should be by class if it is administratively feasible.

(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.

FC Banks Response: Although as previously noted, the FC Banks does not support the "opt-in" approach, the banks believes that if such circumstances arise, voting by class is appropriate. Among other things, different classes may be more difficult to get to vote, and we would not want difficulty in getting a certain class vote to hold up a solution for other classes. Different classes (e.g., Term B, longer-termed loans) may approach the question differently as well.

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?

FC Banks Response: The FC Banks feels that class voting is appropriate in such circumstances. See answer to 15(b) above.

(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.

FC Banks Response: The FC Banks would endorse a majority approach since a supermajority would be difficult to implement.

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.

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

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?

FC Banks Response: The FC Banks would endorse a replacement rate published by the third party, consistent with the other ARRC working groups and ISDA.

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?

FC Banks Response: The FC Banks believes that this should be on an ongoing basis, as part of its obligations as an administrative agent.

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.

FC Banks Response: The FC Banks feels that a forward looking fallback rate is a preferable solution and the rate's interest calculation should be coordinated across other cash products and derivatives.

Question 21. 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 22. Do you see other operational challenges that fallback language should acknowledge or of which the ARRC should be aware? 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 will create unnecessary risk to the global and domestic markets.

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.

FC Banks Response: The FC Banks would like to see a coordinated approach by all ARRC Workgroups and the ISDA in determining fallback triggers and methodologies. Failure of the ARRC and ISDA to create a coordinated approach will create unnecessary basis risk and hedge ineffectiveness.

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.

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 SBLs Workgroup to work with other ACCR Workgroup and the ISDA could create impediments to new syndicated loan originations.

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

FC Banks Response: None at this time.