[6705-01-P]

FARM CREDIT ADMINISTRATION

12 CFR Part 652

RIN 3052-AD51

Federal Agricultural Mortgage Corporation Funding and Fiscal Affairs; Risk-Based Capital Requirements.

AGENCY: Farm Credit Administration.

ACTION: Advance notice of proposed rulemaking.

SUMMARY: The Farm Credit Administration (FCA) is considering updating its regulatory capital framework for the Federal Agricultural Mortgage Corporation (Farmer Mac) to enhance safety and soundness during periods of financial and economic stress. With this Advance Notice of Proposed Rulemaking (ANPRM), FCA is seeking comments from the public on whether and how to amend and strengthen the regulatory capital framework in furtherance of Farmer Mac's safe and sound operations and its role in promoting affordable and sustainable access to credit in agricultural and rural communities, which it carries out by providing liquidity and credit protection tools to rural lenders.

DATES: You may send comments on or before [Insert date that is 60 days after date of publication in the Federal Register].

ADDRESSES: For accuracy and efficiency reasons, FCA encourages commenters to submit comments by email or through the FCA's website. As facsimiles (fax) are difficult to process and achieve compliance with section 508 of the Rehabilitation Act, comments submitted by fax are not accepted. Regardless of the method used, please do not submit comments multiple times via different methods. Comments may be submitted by any of the following methods:

- Email: Send an e-mail to reg-comm@fca.gov.
- FCA website: http://www.fca.gov. Click inside the "I want to…" field near the top of the page; select "comment on a pending regulation" from the dropdown menu; and click "Go." This takes you to an electronic public comment form.
- Mail: Joseph T. Connor, Acting Director, Office of Secondary Market Oversight, Farm Credit Administration, 1501 Farm Credit Drive, McLean, VA 22102-5090.

FCA posts all comments on the FCA website. FCA shows comments as submitted, including any supporting data provided, but for technical reasons may omit items such as logos and special characters. Identifying information that you provide, such as phone numbers and addresses, will be publicly available. However, FCA will attempt to remove email addresses to help reduce internet spam.

Copies of all comments received may be reviewed on the FCA website at http://www.fca.gov. Once on the website, click inside the "I want to…" field near the top of the page; select "find comments on a pending regulation" from the dropdown menu; and click "Go." This will take you to the Comment Letters page where you can select the regulation for which you would like to read the public comments. You may also review comments at the FCA office in McLean, Virginia. Please call us at (703)883-4056 or email us at reg-comm@fca.gov to make an appointment.

FOR FURTHER INFORMATION CONTACT:

Joseph T. Connor, connorj@fca.gov, Acting Director, Office of Secondary Market Oversight, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4280, TTY (703) 883-4056,

or

Andra Grossman, grossmana@fca.gov, Attorney Advisor, or Jennifer Cohn, cohnj@fca.gov, Assistant General Counsel, Office of the General Counsel, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4020, TTY (703) 883-4056.

SUPPLEMENTARY INFORMATION:

I. Objective

The objective of this ANPRM is to gather public input to:

- Promote Farmer Mac’s safe and sound operations through the ongoing maintenance of sufficient capital and reserves to absorb unexpected losses and support the growth and continued fulfillment of its role.
- Ensure that Farmer Mac operates under a clear, comprehensive, and transparent capital framework.
- Assess whether and how the FCA should further incorporate elements of other established and emerging regulatory frameworks governing capital to enhance the regulatory capital framework for Farmer Mac and determine whether the application of those frameworks to Farmer Mac would require modifications to suit Farmer Mac’s non-bank, rural-focused, secondary market business model, and if so what modifications would be needed.
- Analyze the costs and benefits of updating FCA’s capital regulations for Farmer Mac, including the costs of potential unintended consequences, if any.

Responses to this ANPRM will help FCA evaluate whether and how it should adopt a capital framework similar to other recognized frameworks to enhance the safety and soundness of Farmer Mac, with adjustments as appropriate, that would take into consideration Farmer Mac’s status as a secondary market financial institution focused on agricultural and rural utility markets.[1]

II. Introduction

Farmer Mac is an institution of the Farm Credit System (System), regulated by FCA through its Office of Secondary Market Oversight (OSMO).[2] Governed by Title VIII of the Act, Farmer Mac was established in 1988 to create a secondary market for agricultural real estate mortgage loans and rural housing mortgage loans; rural utilities loans were later added. The Act established Farmer Mac as a stockholder-owned instrumentality of the United States government, a structure commonly referred to as a government-sponsored enterprise (GSE). Farmer Mac’s role in the secondary market for agriculture and rural infrastructure loans is comparable to the roles of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the housing GSEs) in the secondary market

[1] This ANPRM seeks comment only on Farmer Mac’s regulatory capital framework, not on the regulatory capital framework applicable to System banks and associations. Farmer Mac is governed by different statutory and regulatory capital requirements than those that apply to System banks and associations.

[2] Sections 8.1 and 8.11 of the Farm Credit Act of 1971, as amended (Act), 12 U.S.C. 2279aa-1 and 2279aa-11.

for U.S. housing mortgages. The housing GSEs' Federal regulator is the Federal Housing Finance Agency (FHFA).

The purpose of the legislation creating Farmer Mac was to provide a secondary market for agricultural real estate mortgages, to increase the availability of long-term credit to farmers and ranchers, to provide greater liquidity and lending capacity to primary lenders as they extend credit to farmers and ranchers, to provide an arrangement for new lending to facilitate capital market investments in long-term agricultural funding, and to enhance the ability of individuals in small rural communities to obtain financing for moderate-priced houses.[3] The FCA, through OSMO, is responsible for the oversight and supervision of Farmer Mac's safe and sound operations in furtherance of its role to facilitate an efficient, competitive, and resilient secondary market for agriculture and rural communities.

Sufficient capital is crucial to the resiliency and effective operations of all financial institutions, serving functions such as absorbing losses, promoting public confidence, helping restrict excessive asset growth, and

[3] *See* Section 701 of the Agricultural Credit Act of 1987, Pub. L. 100-233, 101 Stat. 1568, 1686 (Jan. 6, 1988) (12 U.S.C. 2279aa note).

providing protection to debt investors. Capital's loss-absorbing capacity allows financial institutions to continue operating as going concerns during periods of unexpected operating losses or other adverse financial conditions. Financial institution regulators, both internationally and in the United States, have increasingly recognized the value of globally adopted standards and measurements that, among other things, provide more transparency to an institution's capital adequacy and make institutions' financial strength more readily comparable.

After the worldwide financial crisis of 2007-2009, the Basel Committee on Banking Supervision (BCBS) issued in 2010, subsequently revised, and issued additional documents related to, a framework known as Basel III.[4] Basel III was an internationally agreed upon set of measures developed in response to the financial crisis with the goal of strengthening the regulation, supervision, and risk management of banks. Since that time, the BCBS has revised, updated, and integrated the Basel III reforms into a consolidated Basel Framework (Basel Framework), which comprises all of the current and forthcoming BCBS

[4] *See* "Basel III: A global regulatory framework for more resilient banks and banking systems," revised version June 2011, and other Basel III documents at https://www.bis.org/bcbs/basel3.htm?m=2572.

standards.[5] Three U.S. Federal banking regulatory agencies are represented on the BCBS: the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRB), and the Federal Deposit Insurance Corporation (FDIC) (collectively, the FBRAs).[6]

The Basel Framework is intended to improve both the quality and quantity of banking organizations' capital, as well as to strengthen various aspects of the international capital standards governing regulatory capital. Enhanced comparability and disclosure requirements also improve market discipline, the positive externality provided by the response of capital markets to disclosed information. The Basel Framework has two main approaches to calculating risk-weighted assets for credit risk - the internal ratings-based (IRB) approach and the standardized approach.[7] In turn, the IRB approach has two approaches – the advanced

[5] *Id.* The Basel Framework can be found at http://www.bis.org/basel_framework/index.htm, and the BCBS continues to update it as indicated on the website. While the Basel Framework includes liquidity and other provisions in addition to capital provisions, this ANPRM addresses only its capital provisions.
[6] Neither the FBRAs nor any other U.S. regulator is required by law to adopt the Basel Framework but, as discussed below, the FRBAs, the FCA (for System banks and associations), and FHFA have all issued Basel-based capital rules.
[7] Basel Framework at CRE20.1 and CRE20.2 (version effective as of 1/1/2023). The Basel Framework's IRB approach also addresses the calculation of risk-weighted assets for market risk and operational risk (see MAR and OPE sections of the Basel Framework), but these risks are not the focus of this ANPRM.

IRB approach (A-IRB) approach and the foundation IRB approach. While this ANPRM focuses more on the A-IRB than the foundation IRB approach, we invite comments on both.

Under the Basel Framework's IRB approach, an institution calculates risk weights using its internal risk rating assignments, probabilities of default, and other inputs derived from its internal models.[8] In general, under the standardized approach, an institution's regulator assigns fixed risk weights to exposures based on their relative risk characteristics.[9]

In 2013 and 2014, the FBRAs adopted the Basel III framework to apply to the U.S. banking organizations they regulate (U.S. rule).[10] The U.S. rule applies the A-IRB approach to the largest, internationally active bank organizations – in general, those with assets of $700 billion or more – and the standardized approach to smaller banks.[11] In addition, the U.S. rule requires the A-IRB

[8] See Basel Framework at CRE 30 through CRE 36.
[9] Basel Framework at CRE 20.
[10] 78 FR 62018 (Oct. 11, 2013) (FRB and OCC); 79 FR 20754 (Apr. 14, 2014) (FDIC). This rulemaking refers to the FBRAs' capital regulations, including amendments after their initial adoption, as the U.S. rule. The U.S. rule reflects Basel III as well as other BCBS standards, and the provisions of the U.S. rule that are not specifically included in the Basel III framework are generally consistent with the goal of the framework. The U.S. rule is codified at 12 CFR Part 3 (OCC), 12 CFR Part 217 (FRB), and 12 CFR Part 324 (FDIC).
[11] 12 CFR § 3.1(c)(3) (OCC), 12 CFR § 217.1(c)(4) (FRB), 12 CFR § 324.1(c)(3) (FDIC).

approach banks to also calculate their capital ratios under the standardized approach and provides that their capital ratios are whichever approach yields the lower ratios. In other words, A-IRB approach banks are required to comply with whichever approach requires the bank to hold more capital.[12]

In 2016, FCA adopted a rule governing System banks and associations that is comparable to the standardized approach of the U.S. rule to the extent appropriate for the System's cooperative structure and status as a GSE with a mission to provide a dependable source of credit and related services for agriculture and rural America.[13] Consistent with the U.S. rule, the FCA's rule for banks and associations incorporates key aspects of the Basel III framework.

[12] The FBRAs' A-IRB approach rules are at 12 CFR Part 3 (OCC), 12 CFR Part 217 (FRB), and 12 CFR Part 324 (FDIC). The regulatory requirements to hold capital in accordance with whichever approach requires holding the greater amount of capital are set forth at 12 CFR § 3.10(d) (OCC), 12 CFR § 217.10(d) (FRB), and 12 CFR § 324.10(d) (FDIC). The U.S. rule includes market risk (as appropriate) and operational risk, as well as credit risk, in its calculation of risk-weighted assets under the A-IRB approach. See definition of "advanced approaches total risk-weighted assets" in 12 CFR § 3.2 (OCC), 12 CFR § 217.2 (FRB), and 12 CFR § 324.2 (FDIC). As stated above, this ANPRM is focused on credit risk only.

[13] 81 FR 49720 (Jul. 28, 2016). FCA made revisions to the rule in 2021; see 86 FR 54347 (Oct. 1, 2021). These rules are part 628 of FCA regulations. FCA did not adopt IRB approaches or market or operational risk provisions.

The FHFA issued several final capital rules between 2020 and 2022 that apply aspects of the Basel Framework to the housing GSEs (FHFA capital rule).[14] Like the U.S. rule, the FHFA capital rule requires the housing GSEs to calculate their risk-weighted assets under both the standardized and A-IRB approaches with the greater of the two used to determine compliance with risk-based capital requirements.[15]

The FHFA capital rule is particularly relevant to Farmer Mac in several respects. As discussed earlier, the housing GSEs, like Farmer Mac, are secondary market GSEs. Like the housing GSEs, Farmer Mac has a countercyclical role, meaning that while it is an important resource for liquidity in normal operating conditions, it becomes an even more important resource for primary lenders under stressful conditions.

The financial crisis of 2007–2009 demonstrated the inadequacy of the capital requirements that governed the

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[14] 85 FR 82150 (Dec. 17, 2020); 87 FR 14764 (Mar. 16, 2022). These rules have been codified at 12 CFR Part 1240. As discussed below, the housing GSEs have been in conservatorship since 2008. They will not be subject to FHFA's capital rules until after they exit conservatorship (see 12 CFR § 1240.4(d)(1) and (d)(2)). Like the FBRAs, the FHFA did not adopt the foundation IRB approach and includes market risk (as appropriate) and operational risk, as well as credit risk, in its calculation of risk-weighted assets under the A-IRB approach (see 12 CFR § 1240 Subpart E and 12 CFR § 1240 Subpart F).

[15] 12 CFR § 1240.10.

housing GSEs at the time. On September 6, 2008, "in response to a substantial deterioration in the housing markets that severely damaged [the housing GSEs'] financial condition and left both of them unable to fulfill their missions without government intervention,"[16] the FHFA placed the housing GSEs into conservatorship (where they remain as of the date the FCA Board adopted this ANPRM). While the housing GSEs are not subject to the FHFA capital rule while they are in conservatorship, the FHFA adopted the FHFA capital rule in anticipation of the eventual termination of the conservatorships.

For Farmer Mac, a strong capital position promotes market confidence in the Corporation's ability and readiness to provide rural lenders with a reasonably priced source of liquidity and credit. That service, in turn, helps lenders provide uninterrupted credit services to agricultural and rural utility borrowers.

In 2013, FCA adopted regulations governing Farmer Mac (the capital planning rule) that included provisions based

[16] See "History of Fannie Mae and Freddie Mac Conservatorships," at https://www.fhfa.gov/Conservatorship/Pages/History-of-Fannie-Mae--Freddie-Conservatorships.aspx#:~:text=History%20of%20Fannie%20Mae%20and%20Freddie%20Mac%20Conservatorships,its%20authorities%20to%20place%20each%20Enterprise%20into%20conservatorship,.

on the Basel III framework.[17] The capital planning rule focuses on the capital planning process, board responsibilities for approving that process, and the mandatory elements of the capital plan, among other things. In addition, the capital planning rule requires Farmer Mac's capital plan to include a Basel-based tier 1 ratio using tier 1 capital comprised of components that meet the criteria established in definitions set forth in the Basel III Framework or the U.S. rule, and using a risk-weighted assets approach that is appropriate given Farmer Mac's business activities and consistent with broadly accepted banking practices and standards.[18] In accordance with the rule, Farmer Mac reports other capital measures to FCA in agreed-upon call report schedules.

Although the capital planning rule does not require Farmer Mac to disclose its tier 1 capital ratio, Farmer Mac voluntarily discloses the ratio in its Securities and Exchange Commission (SEC) filings its tier 1 ratio as calculated under the A-IRB approach.[19] In addition, Farmer

[17] 78 FR 65145 (Oct. 31, 2013). This rule is set forth at 12 CFR § 652 Subpart B.

[18] 12 CFR § 652.61(b), definition of "Tier 1 ratio."

[19] *See, e.g.,* Farmer Mac Form 10-Q for the quarterly period ended June 30, 2022, page 111, at https://www.sec.gov/ix?doc=/Archives/edgar/data/845877/000084587722000163/agm-20220630.htm

Mac voluntarily discloses in its SEC filings that its board has adopted a capital policy which includes a 2.5% buffer over its internal minimum tier 1 capital ratio.[20]

Since FCA's adoption of the 2013 capital planning rule, the scale and complexity of Farmer Mac's operations and secondary market activities have both increased substantially. Outstanding program volume was $23.6 billion as of December 31, 2021, up from $14.0 billion at yearend 2013. Farmer Mac's agricultural finance operations include an increased focus on participations in, and syndications of, large commercial loans. Further, the scope of its rural infrastructure finance operations has expanded to include renewable energy project finance and telecommunications finance focused on broadband services. Because of Farmer Mac's growth and the increasing complexity of its operations, and in light of enhancements other U.S. regulators have made to their capital requirements since Farmer Mac's capital planning requirements were adopted in 2013, FCA believes it is appropriate to consider whether and how Farmer Mac's

[20] *See, e.g.,* Farmer Mac's Form 10-K for the period ending December 31, 2021, page 32 at https://www.sec.gov/ix?doc=/Archives/edgar/data/845877/000084587722000022/agm-20211231.htm.

capital requirements should be enhanced to strengthen its safe and sound operations.

III. Discussion of Farmer Mac's Business and Current Capital Requirements

A. Farmer Mac's Business Operations

Under Farmer Mac's agricultural finance activities, it purchases eligible loans directly from lenders, provides advances against eligible loans by purchasing obligations secured by those loans or assets that qualify as eligible agricultural real estate collateral, securitizes assets and guarantees the resulting securities, and issues long-term standby purchase commitments for eligible loans. Securities guaranteed by Farmer Mac may be held either by the originator of the underlying assets or by Farmer Mac, or they may be sold to third-party investors.

Under its rural infrastructure financing activities, Farmer Mac purchases, or commits to purchase, and guarantees, qualified rural electric and telephone utility loans, or securities backed by such loans, directly from cooperative lenders. Congress granted Farmer Mac the authority for this activity as program business in 2008.[21]

[21] *See* Section 5406 of Pub. L. 110-246, 122 Stat. 1651, 1920, June 18, 2008 (codified at section 8.0(9) of the Act).

Farmer Mac’s total program business volume was $23.6 billion which equates to 20-year compound average growth of 9.0 percent since yearend 2001. Of that $23.6 billion in total outstanding program business volume, 75 percent is in agricultural finance and 25 percent in rural infrastructure finance.[22]

B. Farmer Mac’s Current Capital Requirements

Section 8.11 of the Act authorizes FCA to provide for the general supervision of the safe and sound performance of the powers, functions, and duties of Farmer Mac.

Section 8.32 of the Act requires FCA to establish a risk-based capital test to determine the amount of regulatory capital[23] that would be sufficient for Farmer Mac to maintain positive capital during a 10-year period under certain specified circumstances. FCA first issued regulations governing Farmer Mac capital to implement the requirements for the Risk-based Capital Stress Test (RBCST) in 2001. These regulations have been updated three times,

[22] Farmer Mac is authorized to invest in eligible non-program investments. In this activity, Farmer Mac purchases eligible securities for the purposes of enterprise risk management, including complying with its interest rate risk requirements, complying with its liquidity risk requirements, managing surplus short-term funds, and complementing program business activities. *See* 12 CFR § 652.15. These investments also contribute to total risk-weighted assets for capital purposes.

[23] “Regulatory capital” is defined in section 8.31(5) of the Act as core capital “plus an allowance for losses and guarantee claims, as determined in accordance with generally accepted accounting principles [GAAP].”

most recently in 2011.[24] FCA is not requesting comment on potential changes to the RBCST in this ANPRM.[25]

Section 8.33 of the Act established minimum core capital[26] (leverage) ratios, for which FCA also published regulations in 2001.[27] FCA is also not seeking comment on potential changes to these regulations.

As discussed above, FCA's capital planning rule requires Farmer Mac calculate and include in its capital plan a Basel-based tier 1 ratio as defined by established standards or regulations.[28] The capital planning rule incorporates by reference Basel capital-related terms[29] that are also in the U.S. rule.

The capital planning rule requires Farmer Mac's board of directors to review the robustness of its process for assessing capital adequacy, to correct any deficiencies in

[24] These regulations are set forth at 12 CFR Part 652 Subpart B. The regulations were published at 66 FR 19048 (Apr. 12, 2001); 71 FR 77247 (Dec. 26, 2006); 73 FR 31937 (Jun. 5, 2008); and 76 FR 23459 (Apr. 27, 2011).

[25] FCA notes that at the time the housing GSEs entered conservatorship in 2008, their regulator had in place a similar RBCST-type requirement pursuant to the housing GSEs' authorizing statute. This statute also imposed minimum leverage ratio requirements similar to, though lower than, the leverage ratio requirements imposed on Farmer Mac by the Act.

[26] "Core capital" is defined as the sum of the following as determined in accordance with GAAP: the par value of outstanding common and preferred stock, paid-in capital, and retained earnings.

[27] 66 FR 19048 (Apr. 12, 2001), originally codified at 12 CFR § 650.25(c), and later moved to 12 CFR § 652.75(c).

[28] 12 CFR § 652.61(b), definition of "Tier 1 ratio."

[29] *Id.*

that process, and to approve the annual capital plan.[30] The rule also established an annual assessment by FCA of Farmer Mac's capital plan.[31] The rule requires Farmer Mac to consider the results of its stress tests and FCA's assessment of the plan in its capital planning process, including specific stress scenarios required by FCA.[32]

IV. Request for Comments

FCA solicits comments on the following questions. Comments should be supported with relevant data or examples when available. These questions refer collectively to the Basel Framework, the U.S. rule, FCA's capital regulations governing System banks and associations, and the FHFA's capital regulations as the "existing capital frameworks."

A. General

1. What core principles are most important in FCA's consideration of whether capital regulations governing Farmer Mac should be more closely aligned with any of the existing capital frameworks?

2. What unintended consequences, if any, could result from the application of any of the existing capital frameworks to Farmer Mac?

[30] 12 CFR § 652.61(c).
[31] 12 CFR §§ 652.61(d) and (e).
[32] 12 CFR §§ 652.61(c)(1)(iii)(A), (c)(2)(i)(A).

B. Risk-based approaches and buffers

3. FCA's existing regulations do not specify whether Farmer Mac must use the standardized approach, an IRB approach, or both to calculate credit risk-weighted assets. As discussed above, Farmer Mac reports its capital measures to FCA in agreed-upon call report schedules and voluntarily makes certain public disclosures regarding its use of the A-IRB approach. The IRB approach was intended to apply to large, international lenders and include fundamental assumptions consistent with their size and the scope of their business profiles.

The U.S. rule and the FHFA capital rule require regulated entities that use the A-IRB approach to also calculate credit risk-weighted assets using the standardized approach, and the binding capital minimum requirements are based on the greater of the risk-weighted asset calculations under the two approaches.

a) Should FCA consider requiring Farmer Mac to comply with the standardized approach, the IRB approach, or both? If so, which approach or approaches should Farmer Mac be required to comply with, and why?
b) What adjustments, if any, should FCA consider to tailor either the standardized approach or an IRB

approach to take account of Farmer Mac's smaller size, more limited financing authorities, or other unique aspects of its business model?

c) If FCA were to require Farmer Mac to use both the standardized and an IRB approach to calculate its credit risk-weighted assets, how should differences between the two approaches' results be treated with respect to capital requirements? For example, the U.S. rule and FHFA both require the use of the greater of the two risk-weighed assets calculation.

4. The BCBS' summary of 2017 post-crisis reforms notes that the financial crisis of 2007-2009 highlighted shortcomings in the internally modeled approaches for regulatory capital, including the IRB approach to credit risk.[33] The shortcomings included excessive complexity of the IRB approach, the lack of comparability in banks' internally modeled IRB capital requirements, and the lack of robustness in modeling certain asset classes.[34]

The BCBS noted that internal models should allow for more accurate risk measurement than the standardized approach. It cautioned, however, that internal modeling,

[33] BCBS, "High-level summary of Basel III reforms," December 2017, at 5. https://www.bis.org/bcbs/publ/d424_hlsummary.pdf.
[34] *Id.*

when used to set minimum capital requirements, can create incentives to minimize risk weights. The BCBS stated that "certain types of asset, such as low-default exposures, cannot be modelled reliably or robustly."[35]

The existing capital frameworks – particularly the A-IRB approach - have expanded the use of floors to address these shortcomings in modeling. These frameworks impose floors on measures - such as probability of default (PD), loss given default (LGD), and risk-weights - that apply to certain exposures. These floors prevent the measures from falling below specified levels, even if the modeling would otherwise result in lower levels. The existing capital frameworks include both input floors, for measures such as PD and LGD,[36] and output floors (i.e., risk-weight floors to be applied when model outputs are lower than the floor) for different exposures.

If FCA adopts Basel Framework-based requirements, should it establish floors similar to those in the existing capital frameworks? If so, what should those floors be and why? Given the differences among the risk-weight floors

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[35] BCBS, "Finalising Basel III, In brief", December 2017, page 1. https://www.bis.org/bcbs/publ/d424_inbrief.pdf.

[36] For example, see Basel Framework at CRE32.4 for PD floor and CRE 32.16 for LGD floor (version effective as of January 1, 2023). For examples of the U.S. rule PD and LGD floors see 12 CFR § 3.131 (OCC); 12 CFR § 217.131 (FRB); and 12 CFR § 324.131 (FDIC).

established in the other capital frameworks, is there a policy among them that should be considered the most readily transferrable to a Farmer Mac capital framework, or should FCA develop Farmer Mac-specific risk-weight floors?

5. The existing capital frameworks require entities to hold capital over the minimum requirements – referred to as "buffers" – to avoid restrictions on dividend payouts and discretionary bonuses. The existing capital frameworks include different types of buffers including, but not limited to, a capital conservation buffer and a countercyclical buffer.[37] Should capital buffers be required for Farmer Mac and, if so, what type should FCA consider?

6. The existing capital frameworks require certain entities to make capital-related public disclosures to improve market discipline and transparency.[38] The nature of

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[37] See buffer requirements at section RBC30 of the Basel Framework; 12 CFR § 3.11 (OCC); 12 CFR § 217.11 (FRB); and 12 CFR § 324.11 (FDIC) of the U.S. rule; 12 CFR § 628.11 of the FCA banks and associations capital rule; and 12 CFR § 1240.11 of the FHFA capital rule. A conservation buffer is designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. Under a countercyclical buffer regime, the regulator monitors credit growth and other indicators for signs of elevated system-wide risk; based on this assessment the regulator may put in place a countercyclical buffer requirement when circumstances warrant and then remove that buffer when credit risk returns to more normal levels. Other types of buffers also exist.

[38] *See* Basel Framework section DIS10; 12 CFR §§ 3.61-3.63 (OCC); 12 CFR §§ 217.61–217.63 (FRB); 12 CFR §§ 324.61-324.63 (FDIC) (U.S. rule

these disclosures varies depending on whether the entities follow the standardized or an IRB approach. Currently, as discussed above, within a Basel-based context, Farmer Mac voluntarily discloses its tier 1 ratio as calculated under the A-IRB approach, as well as its adoption of a buffer over its internal minimum tier 1 capital ratio. What disclosures, if any, should FCA consider requiring for Farmer Mac?

C. Leverage ratio and leverage buffer

7. The Basel Framework requires a minimum leverage ratio (i.e., a non-risk-based ratio) of three percent.[39] The U.S. rule requires a minimum leverage ratio of four percent to be considered adequately capitalized and an additional supplementary leverage ratio of three percent for A-IRB approach users.[40] FCA regulations governing System banks and associations require a four percent leverage ratio with a leverage buffer of one percent.[41] The FHFA capital rule requires a 2.5 percent minimum tier 1 leverage ratio plus a leverage buffer that adjusts based on

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standardized approach entities with total consolidated of $50 billion or more); 12 CFR §§ 3.171-3.173 (OCC); 12 CFR §§ 217.171–217.173 (FRB); 12 CFR §§ 324.171-324.173 (FDIC) (U.S. rule A-IRB approach entities); 12 CFR §§ 628.61–628.63 (FCA rule for System banks); 12 CFR §§ 1240.61–1240.63 (FHFA).

[39] Basel Framework at LEV20.6.

[40] *See* 12 CFR § 217.10 (FRB); 12 CFR § 3.10 (OCC); 12 CFR § 324.10 (FDIC).

[41] *See* 12 CFR § 628.11.

the entity's market share.[42] FCA regulations do not require Farmer Mac to calculate a leverage ratio or buffer.

Should FCA consider leverage ratio requirements for Farmer Mac? If so, what leverage ratio requirements should FCA consider? Should FCA consider a leverage buffer for Farmer Mac? If so, what type and structure should FCA consider?

D. Other

8. What other approaches, risk categories (e.g., market risk and operations risk, including model risk), or methodologies not discussed above should FCA consider in updating its regulatory capital framework for Farmer Mac?

Dated: _____________ _________________________________

Ashley Waldron,
Secretary,
Farm Credit Administration Board.

[42] See 12 CFR § 1240.10(f) and 12 CFR § 1240.11, respectively.