From: Thompson, Anne <AThompson@cobank.com>
Sent: Monday, September 20, 2010 10:00 AM
To: dfadefinitions <dfadefinitions@CFTC.gov>
Subject: Definitions
Attach: 091710 DStawick.pdf

Please find the attached comments.

COBANK

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September 20, 2010

Mr. David A Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
!155 21st Street, NW
Washington, DC 20581

Dear Mr. Stawick:

We are writing to provide general comments to the CFTC's overall effort to write regulations implementing the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act and to the Agency's request for specific comments on definitions contained in the Act.

CoBank and other Farm Credit System institutions are charged by Congress with a specific mission to ensure that rural communities and the businesses on which they depend have access to a competitive source of credit during good times and bad. In fulfilling that congressional mission, Farm Credit offers its customer/owners a wide range of financing products specifically tailored to meet their unique needs. Our ability to provide these tailored financing products is in some measure dependent upon the economical use of derivatives to manage interest rate, liquidity, and balance sheet risk.

As of June 30, 2010, CoBank had a notional amount of some $33.2 billion in outstanding derivative transactions. These derivatives contracts allow us to offer the fixed and floating rate loan products needed by our customers -- farmer-owned cooperatives and other agricultural businesses; rural electric, water and communications companies; and our affiliated Farm Credit lending associations in the Northeast and Northwest states. We are concerned that regulations implementing the Dodd-Frank legislation could dramatically increase the cost of using these interest rate swap contracts and result in higher costs to our customers and increased risk within CoBank.

It is clear that CoBank's OTC swap activities do not rise to the level that would be captured by the definition of "major swap participant" or "swap dealer" included in the Dodd-Frank Act. CoBank's existing swaps contracts do not "create substantial counterparty exposure that could have serious adverse effects on the financial stability of the United States banking system or financial markets" as called for in the legislation's definition of "major swap participant." CoBank closely manages counterparty exposure through zero-margin collateralization agreements. As a result, at June 30, 2010, CoBank's counterparty exposure to swaps dealers was only $64.4 million. Our swaps contracts, our collateral agreements, and our counterparty exposure all are closely overseen by our independent regulator, the Farm Credit Administration.

Additionally, the “major swap participant” definition in the legislation applies a test of “highly leveraged” financial institutions that “are not subject to capital requirements established by an appropriate federal banking agency.” With a net collateral ratio of 108.85% at June 30, 2010, CoBank is not “highly leveraged” compared to other types of financial institutions. CoBank, like all FCS institutions, is subject to very strict capital requirements established by the Farm Credit Administration.

The “swap dealer” definition enacted in the legislation establishes a multi-part test to determine if an institution should be regulated as a swap dealer. CoBank does not meet this test. CoBank enters into swaps with or on behalf of its customers but only in a very limited number and notional amount. CoBank enters into these particular swaps in connection with “transactions with or on behalf of its customers” as called for in the “de minimis” exception included in the legislation.

Thank you for the opportunity to comment. We would be pleased to provide the Agency any additional information related to our swaps activities.

Sincerely,

Robert B. Engel

Robert B. Engel
President & CEO