

Date: August 15, 2008

To: The Director for File Reference No. 1590 -100

Re: Comments on the Amendment of FASB Statement 133



LETTER OF COMMENT NO. 97

From: Jack Mullen
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Dear Director,

Please accept the following comments we have on 3 of the issues that were listed in the Notice for Recipients of the exposure draft for the proposed amendments to FASB 133. Please do not hesitate to contact me if you would like to have a discussion on any of the comments or examples provided below.

Issue 2 Comment: (i.e.; the requirement that the benchmark rate method can only be applied to debt that is hedged at the initial recognition of the debt)

AgriBank, FCB (AgriBank) is one of the largest banks in the Farm Credit System and has used derivatives extensively to reduce the cost and risk of funding the loan portfolio. The benchmark rate method has been an essential accounting tool for AgriBank to utilize in its swapping of fixed rate bond issuance into Libor indexed floating rate debt. As of 7/31/08, AgriBank had approximately \$7.5 Billion of fair value hedges of fixed rate bond issuance for which the benchmark rate method is employed for the monthly valuation of bonds that have been designated as hedged items within these hedge relationships. The interest cost savings that are produced by this hedging strategy are passed through to farmers as either lower cost borrowings or increased patronage. Therefore, AgriBank would like to emphasize to FASB that it is extremely important to retain the benchmark rate method in the amended version of FASB 133. Without the availability of the benchmark rate method, AgriBank would not be able to employ receive fixed and pay floating interest rate swaps as fair value hedges because the earnings volatility that would be produced by using the Farm Credit Curve to value to hedged items would be too large to be tolerated. This volatility exists despite the fact that AgriBank issues Farm Credit System debt which is rated AAA. In summary, the benchmark rate method is extremely important to the Farm Credit System and AgriBank because it enables the customers of the System to borrow at more competitive rates and it reduces the liquidity risk in the system because the underlying source of the funding is long term callable or bullet fixed rate debt.

In addition, it is also very important for the FASB to preserve the availability of the benchmark rate method for forward starting interest rate swaps that are hedging future Farm Credit System debt issuance, because this strategy has been a very important part of AgriBank's asset / liability risk management procedures. If the benchmark rate method for forward starting swaps that hedge future debt issuance is eliminated in the amended version, then AgriBank would no longer be able to protect itself from mismatches in the timing of retail loan prepayments and call dates on callable fixed rate debt. The need to hedge using forward starting interest rate swaps arises because many of AgriBank's fixed rate loans are prepayable at the option of the borrower. In periods of sharply falling rates, AgriBank's prepayable loans may prepay faster than AgriBank can refinance the outstanding callable debt that was issued to finance. The reason for this is that AgriBank needs to stagger the call dates on newly issued debt throughout the upcoming year to match the most likely scenario for expected loan prepayments. However, if a catastrophic market event causes interest rates drop to very low levels in just a month or two, then refinancings of outstanding fixed rate loans to farmers will soar beyond the expected levels and AgriBank will not have enough callable debt reaching the first call date during that period to enable AgriBank to refinance all of the callable debt that is funding the loans that have been refinanced at the new lower fixed rates

When this situation has occurred in the past, AgriBank's practice has been to execute forward starting pay fixed interest rate swaps in periods when the retail loan refinancings soared above the amount of debt that was currently callable. The start date of the forward starting pay fixed swap has been set to the first call date of previously issued callable debt that was funding loans that have been refinanced ahead of expectations due to the fall in interest rates. The forward starting pay fixed interest rate swap effectively locks in the prevailing term swap rates that exist on the trade date of the swap and hedges the change in the benchmark interest rate for the period up to the call date of the debt. A new bond will be issued on the call date that will refund the old bond that has been called away. Under the benchmark rate method, the forward starting pay fixed interest rate swap will produce a gain or loss that is equal to the change in the U.S. Dollar Libor swap curve that occurred during the period from when the forward swap was executed to the first call date of the bond. The forward starting swap is hedging the rate on the new bond issuance that will replace the bond that is called.

In summary, if this situation could not be protected with fair value hedges that are valued using the benchmark rate method, then AgriBank would incur a substantial interest rate risk between the time that the loans are refinanced at very low rates and the time it takes to reach the first call date on a sufficient amount of callable debt to match the amount of loans that have been refinanced. If AgriBank loses the ability to use the benchmark rate method to hedge future debt issuance, then it will not be able to engage in this type of hedging activity in the future because the amount of hedges required would create too much volatility in current period earnings.

Due to the unacceptable earnings volatility that would result, AgriBank strongly recommends that the amendment of FASB 133 preserve the right of a financial institution

to use the benchmark rate method to hedge debt prior to issuance using forward starting interest rate swaps. We believe that the risk management benefits retained by AgriBank and other institutions with similar risks significantly outweigh the benefits of using a full fair value method for the bonds instead of the benchmark rate method. We would be pleased to provide additional examples and analysis to FASB on this point if that would be useful.

Issue 3 Comment: (i.e., the elimination of the short cut method per E23)

On 7/31/08, AgriBank had \$5.7 Billion in interest rate swaps that met the criteria for short cut described in DIG E23, and as a result, were designated as Fair Value short cut hedges of non callable fixed rate debt. AgriBank always has been a strong advocate for a short cut method to be available to large and frequent users of interest rate swaps of fixed rate bond issuance into floating because of the significant time and cost savings that results from the short cut method. AgriBank has utilized the short cut method in accordance with the guidance provided for short cut in the original version of FASB 133, and over time, AgriBank has tailored its use of short cut to meet the practice recommendations of its public accountants. In addition, AgriBank made all of the changes necessary to comply with the newly issued guidance provided by DIG E23 that was effective on 1/1/08. This involved having to dedesignate hedges with matching critical terms that were executed after the trade date of the bonds. AgriBank believes that there is no longer any room for confusion on the use of short cut due to the clarifications provided in DIG E23 and strongly recommends that a short cut method such as described in DIG E23 be preserved in the amended version of FASB 133.

The reason for this recommendation is that significant operational tasks and costs are introduced by the elimination of the short cut method. AgriBank is a significant user of receive fixed/pay libor swaps that are designated as fair value hedges of fixed rate debt with matching critical terms and that meet the criteria for short cut that was established in DIG E23. The availability of the short cut method has enabled AgriBank to avoid the significant increase in analyst, manager and auditor time associated with having to model and value all of the bond issues that have been designated to be the hedged items in hedge relationships with perfectly matched terms and meet all of the requirements of short cut that were clearly defined in DIG E23. In addition to saving time, the short cut method also reduces internal and external auditor fees and frees up valuable analyst and manger time for other projects and activities.

Another benefit of the short cut method is that it eliminates the need for AgriBank's analysts and managers to have to track and report artificial ineffectiveness where it does not exist. All of AgriBank's short cut hedges are for the full term of the bond issuance and management's intention is to maintain these hedges for the full term of the bonds that they are hedging. As a result, AgriBank believes that the combined interest accruals on the swap and the hedged bond reflect an accurate picture of the true P&L effect of each fair value hedge relationship that has been designated to follow the short cut method. AgriBank believes that having ineffectiveness flowing through earnings on fair value

short cut hedges would be a distortion of the actual and intended effect of these hedge relationships.

In summary, AgriBank believes that the short cut method is a practical expedient for fair value hedges of fixed bond issuance with matching critical terms with no material adverse consequences and therefore recommends that a short cut method be preserved in the Amended version of FASB 133 for fair value hedges of fixed rate debt issuance.

AgriBank believes that the recently issued DIG E23 has eliminated all of the areas of confusion that led to the past practice and restatement problems. Since past misinterpretations of the original version of FASB 133 have been eliminated due to the clarification provided in DIG E23, AgriBank does not agree with FASB's assertion that eliminating short cut will reduce compliance and practice problems in the future.

AgriBank strongly recommends, for all of time and cost savings described above, that a short cut method, such as described in DIG E23, be preserved in the amended version of FASB 133 for fair value hedges of bond issues that are swapped to the Libor benchmark rate, executed on the trade date of the bond, and have a matching notional amount and maturity date.

Issue 4 comment: (change from highly effective to reasonably effective and a qualitative assessment of effectiveness from a quantitative assessment)

AgriBank believes that modifying the effectiveness threshold from highly effective to reasonably effective and replacing quantitative assessments with qualitative assessments is a positive step in the amendment because it should eliminate the statistical testing burden for many hedge relationships and more particularly for those that qualify for the benchmark rate method. AgriBank's concern is that the term "reasonably effective" will become a source of confusion and that many examples of what constitutes reasonably effective must be provided. AgriBank strongly recommends that all fair value hedge relationships that consist of receive fixed versus pay Libor interest rate swaps that are hedges of an entity's own debt issuances be defined as "reasonably effective" as long as the maturity date is the same between the swap and the bond and the notional amount of the swap equals the amount of the bond issue that has been designated to be the hedged item. This "safe harbor" for "reasonably effective" must include hedge relationships that must follow the full fair value method. If FASB does not provide this clarity, then it is inevitable that some firms will claim these hedge relationships to be "reasonably effective" and some firms will not due to the differing interpretations of their public accountants. As a result, AgriBank strongly recommends that specific language and/or examples be included in the amended version that would permit fair value hedges of interest rate risk that must use the full fair value method for the bond rather than the benchmark rate method to qualify as "reasonably effective hedges despite the possibility that relative changes between Libor swap and bond issuance spreads may at times lead to ineffective hedging outcomes under certain scenarios. AgriBank would strongly recommend that these hedge relationships be defined as "reasonably effective" in the amended version as long as the notional amount and maturity of the swap is matched to the notional amount of the bond that has been designated as hedged and the maturity of the bond.

AgriBank would also recommend that FASB provide additional paragraphs or examples that insures that the following hedge relationships may also be considered to be “reasonably effective”: 1) forward starting pay fixed vs. receive Libor swaps that hedge future bond issuance as long as the swap has a matching notional amount, call option exercise date or dates and maturity date, and 2) for hedges of existing debt that are hedged after the inception of the debt due to a need to restructure the amount and/or maturity of fixed rate debt. AgriBank is very concerned that practice problems and differences will arise if is any ambiguity surrounding the interpretation of what can be considered to be “reasonably effective” and what cannot.

Thank you for reading AgriBank’s comments to your proposed amended version of FASB 133. AgriBank’s basic mission is to provide a competitive source funding and long term liquidity to the farm sector and currently has funded approximately 420,000 loans to farmers through its affiliated associations. AgriBank believes that the benchmark rate method for forward starting interest rate swaps is a very important risk management tool that needs to be retained in the future. AgriBank also believes that the significant cost savings that have been achieve by employing the short cut methodology for fair value relationships that meet the criteria established in DIG E23 should be preserved in the amended version because these savings are passed through to the farm sector through lower interest rates on loans from the Farm Credit System. These savings are important because they are eventually passed on to consumers as lower food prices.

With these concepts in mind, AgriBank would like to conclude these comments with the recommendation that FASB avoid making changes in the use of the benchmark rate method in the amended version that would effectively preclude AgriBank’s use of such a powerful hedging tool as forward starting interest rate swaps. Otherwise, AgriBank will have to either seek higher cost alternatives or reduce the financial flexibility that is provided to farmers in the way the loans are structured. Similarly, FASB should avoid eliminating the short cut method that was just clarified in DIG E23 because of the very significant time, cost and operational efficiency savings that are gained by AgriBank and other frequent issuers of fixed rate debt that is swapped to floating. We believe, as derivative users, that FASB needs to set a very high threshold for the benefits that are obtained in financial reporting to justify making changes in FASB 133 that will eliminate the use of the two methods described above. Both of these changes will raise the cost of borrowing by farmers and add to increasing upward pressure on food prices. From our perspective, we do not believe that the elimination of these two items in the amended version will produce a level of benefits that meets this threshold. Please consider our comments and let us know if FASB would like in engage in further dialogue on these items prior to reaching a conclusion.

Sincerely,

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