

Federal Farm Credit Banks Funding Corporation

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September 20, 2012

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
File Reference No.: EITF-12D

Re: "Obligations Resulting from Joint and Several Liability Arrangements"

Dear Director:

On behalf of the Banks of the Farm Credit System (FCS or the System), we welcome the opportunity to express the FCS's views with respect to the FASB proposed Accounting Standards Update, "Obligations Resulting from Joint and Several Liability Arrangements."

Background Information about the Farm Credit System

The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Through its four Banks and 82 Associations, the FCS provides sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and farm-related businesses. The Associations are cooperatives owned by their borrowers, and the Banks are cooperatives owned by their affiliated Associations or principally owned by cooperatives and other eligible borrowers. As of June 30, 2012, the FCS's combined assets totaled \$236.3 billion, with \$180.3 billion of the assets consisting of net loans, and liabilities of \$198.8 billion, with \$190.7 billion of the liabilities being Systemwide debt obligations that are publicly traded.

By statute, the Banks of the FCS are jointly and severally liable as noted in the Farm Credit Act:

(a)(1) Each bank of the System shall be fully liable on notes, bonds, debentures, or other obligations issued by it individually, and shall be liable for the interest payments on long-term notes, bonds, debentures, or other obligations issued by other banks operating under the same title of this Act. (2)(A) Each bank shall also be primarily liable for the portion of any issue of consolidated or Systemwide obligations made on its behalf and be jointly and severally liable for the payment of any additional sums as called upon by the Farm Credit Administration in order to make payments of interest or principal which any bank primarily liable therefor shall be unable to make.

In addition, the Farm Credit Act established a Farm Credit Insurance Fund to insure the timely payment of principal and interest on insured obligations. The Farm Credit Act prohibits the FCA

from making joint and several calls before the Insurance Fund is exhausted, even if the Fund is only able to make a partial payment because of insufficient amounts in the Fund.

Due to the Banks' joint and several liability on Systemwide obligations and the financial and operational interdependency of FCS institutions, the System issues combined financial statements. In addition, each Bank issues Bank-only financial statements that reflect the Bank's liability for obligations issued on its behalf, as well as a disclosure in the notes to the financial statements that describes the joint and several liability and the total amount of Systemwide obligations outstanding.

The comments that follow are the result of consideration of issues related to the accounting changes proposed by the FASB. Some FCS institutions may be submitting comments separate from this letter in order to address specific issues not discussed or to clarify or emphasize positions expressed herein.

General Comments

The FCS supports the FASB's efforts to provide guidance for the recognition, measurement, and disclosure of obligations within the scope of the proposed update resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date. This guidance will enhance comparability of financial statements and reduce diversity in practice. We also agree that certain arrangements should be excluded from the requirements.

For our purposes, the FCS believes that existing GAAP, which we follow, is appropriate and provides the most meaningful measurement of the liability in the financial statements. System Associations obtain funding by means of direct loans from their affiliated Bank. The Banks in turn obtain their funding primarily by issuing Systemwide obligations to investors through the Funding Corporation (fiscal agent for the Banks). Systemwide obligations are insured by the Farm Credit System Insurance Corporation using funds in the Farm Credit Insurance Fund, which are generated through premiums assessed on the Banks. At June 30, 2012, the Insurance Fund amounted to \$3.2 billion. Before the provisions of joint and several could be invoked, all funds in the Insurance Fund by statute would have to be exhausted.

The Banks issue debt and recognize the liability related to Systemwide obligations for which they are primarily liable. In addition, each Bank provides disclosure in its notes to the financial statements regarding the joint and several liability on Systemwide obligations and discloses the total amount of all Systemwide obligations outstanding. In addition as noted above, the System issues combined financial statements in support of the issuance of Systemwide Debt obligations.

Based on the foregoing, the System believes the current loss contingency guidance is appropriate and thus, the exceptions to the proposed guidance would pertain to the System. If the update had not provided for the exception, each Bank would be required to report the full amount of the outstanding Systemwide obligations. Under such an approach, it is unclear to us what the accounting entry would be, particularly the debit side of the entry.

Questions for Respondents

The following are answers to the questions we believe are applicable to the System.

Question 1: Do you agree with the types of obligations resulting from joint and several liability arrangements that are included in the scope of this proposed update (that is, the total amount under the arrangement is fixed at the reporting date and not otherwise covered by existing U.S. GAAP)?

Yes. The Banks of the FCS agree with the guidance that would require an entity to measure obligations resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date, except for obligations otherwise accounted for under other Topics. We believe that guidance in Subtopic 450-20, Contingencies – Loss Contingencies provides the appropriate level of guidance for assessing the probability of incurrence of a loss and whether the amount of loss can be measured and recognized in the financial statements.

Question 2: Do you agree that the scope of this proposed Update should include all entities that have joint and several liability arrangements within the scope of the proposed update, including entities that are under common control, related parties, and unrelated parties?

Yes, as long as guidance is not otherwise covered by existing U.S. GAAP.

Question 5: Do you agree that obligations resulting from joint and several liability arrangements that are included in the scope of this proposed update should be measured as a loss contingency in accordance with Subtopic 450-20?

Yes, unless the arrangements take the form of a guarantee. Guidance related to guarantors should be followed if the facts and circumstances of the arrangements specify that the entity is standing ready to guarantee the arrangement, as set forth in Subtopic 405-40-15-2.

Question 6: Do you agree with the disclosure requirements for obligations resulting from joint and several liability arrangements that would be included in the scope of this proposed update?

Yes, we agree with the disclosure requirements.

We appreciate this opportunity to respond and hope our comments prove useful to the Board. If you have any questions with respect to the contents of this response, please call me at (201) 200-8071.

Respectfully,

Karen R. Brenner

Senior Vice President - System

Accounting and Financial Reporting

Karen R. Brenner