October 25, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
File Reference No.: 2013-290

Re: “Proposed Accounting Standards Update, Insurance Contracts (Topic 834)”

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, “Insurance Contracts (Topic 834).”

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, 2013, the FCS’s combined assets totaled $248.5 billion, with $192.8 billion of the assets consisting of net loans, and liabilities of $207.9 billion, with $199.0 billion of the liabilities being Systemwide debt obligations that are publicly traded. The System also had $2.4 billion in standby letters of credit at June 30, 2013.

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

We do not agree that accounting for standby letters of credit and standard contractual indemnity clauses should be included in the scope of the proposed standard. To include those items would unnecessarily complicate the accounting and reporting of such transactions. Today, standby letters of credit are already required to be accounted for at fair value, and indemnity clauses are subject to accounting for contingency guidelines. Both of these models imply that an entity is monitoring and reporting on its rights and obligations surrounding those transactions at each reporting period. We believe current GAAP captures the essence of these transactions and provide for timely reporting of significant changes in risks. Further, current authoritative guidance promotes a principles based approach while avoiding unnecessary accounting and disclosure requirements. Introducing
insurance company accounting, with its attendant premium amortization and adjustment of ongoing potential liabilities, would complicate these accounting models with no perceptible benefit to be achieved. We urge the FASB to reconsider these scope inclusions.

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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) 200-8081.

Respectfully,

Karen R. Brenner
Managing Director –
Financial Management Division