



FEDERAL FARM CREDIT BANKS  
**FUNDING CORPORATION**

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May 15, 2013

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  
File Reference No.: 2013-220

**Re: "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities"**

Dear Director:

On behalf of the Banks and Associations 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, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities."

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 March 31, 2013, the FCS's combined assets totaled \$247.5 billion, with \$190.5 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 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 improve financial reporting for financial instruments that links the measurement of financial assets to the way in which an entity expects to benefit from the cash flows embedded in those assets. However, the business model criteria do not take into account the business activities of financial institutions. Paragraph 825-10-55-31 states that "sales of financial assets that result from managing the credit exposure because of concentrations of credit risk would not be consistent with the objective of amortized cost classification" puts into question normal practices of financial institutions, including FCS institutions. Financial institutions manage credit concentrations through loan participations, syndications and assignments as these regulated

institutions are required to comply with regulatory lending limits. Even though financial institutions may sell loan participations or syndications to others, when FCS entities do so, they generally hold the remainder of the loan for the collection of contractual principal and interest. This would be consistent with the amortized cost business model. Not allowing such assets to be accounted for at an amortized cost basis could discourage prudent risk management practices. In addition, the cost to measure the fair value of loans for which a portion *could* be sold significantly outweighs the benefit of recording such loans at fair value. Lastly, the fair values of most FCS entity loans are not readily determinable and as a result, these fair value estimates include significant management judgment.

The FCS agrees with the concept of the business model assessment that takes into account how the entity would manage a financial asset within its distinct business model but would request that the FASB reconsider its conclusion in paragraph 825-10-55-31.

The FCS would appreciate additional clarification regarding certain paragraphs. Paragraph 825-10-30-4 indicates when consideration is given or received for something other than the financial instrument, an entity shall initially measure the financial instrument at fair value. Paragraphs 825-10-30-6 and 825-10-55-40 require either imputing that other component as interest or expensing it, depending on the nature of the component in consideration of the nature of the transaction. The description of "other consideration given or received" is too vague and subjective and should provide greater clarity as to what elements would require immediate net income recognition versus imputation of interest.

#### Questions for Respondents

In addition to our general comment, the FCS has answered those questions we believe are applicable to us and our business.

Question 10: Do the proposed amendments appropriately convey the principle associated with the business model assessment? If not, why? What would you propose instead?

No. As cited in our general comments, the FCS does not believe that the business model assessment is consistent with business practices at many financial institutions. We would propose that sales through loan participations and syndications be considered as a normal business practice given the primary objective is to collect contractual principal and interest. Inadvertently prohibiting sales that are meant to manage credit risk concentrations may constrain sound business and risk management practices.

Question 18: The proposed amendments would require financial assets measured at amortized cost that are subsequently identified for sale to continue to be classified and measured at amortized cost less impairment and would prohibit recognition of the gain, until the sale is complete. Do you agree with the proposed classification and measurement requirements? If not, why?

No. We do not agree with the proposed classification and measurement. As set forth above, financial institutions buy and sell loan participations in the ordinary course of business. The subsequent identification as for sale under many circumstances does not change the objective of collection of contractual principal and interest on loan participations sold. The amortized cost should remain as the measurement not amortized cost less impairment with a potential for a gain on sale when the sale is complete.

Question 22: The proposed amendments would require reclassification of financial assets when a

change in business model occurs and prescribes how those changes should be subsequently accounted for. Do you agree with the proposed amendment on reclassifications? If not, why?

No. As cited above, we believe that sales through loan participations should be considered a normal business practice as the primary intent is to receive income from collection of principal and interest per contractual terms and not to manage income and cash flows through the sale of assets held.

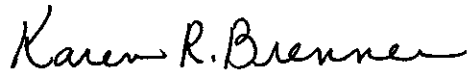
Question 29: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement would you change and why?

No. We do not agree with the requirement for public entities to parenthetically present fair value for items measured at amortized cost on the face of the statement of financial position. We do not believe that this requirement provides decision-useful information to a reader of the financial statements. Too much information on the face of the statements can be confusing. Current footnote disclosures provide the reader with sufficient information on the fair value of financial assets carried at amortized cost and there is no need to change the current requirements.

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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