Statement
Leland A. Strom, Board Member
Farm Credit Administration Board Meeting
May 8, 2014

Today, the FCA Board is considering a Notice of Proposed Rulemaking that would revise our regulatory capital requirements for the Farm Credit System banks and associations to include tier 1 and tier 2 risk-based capital ratio requirements, a tier 1 leverage requirement, a capital conservation buffer, revised risk weightings and additional public disclosure requirements. The revisions to the risk weights would include an alternative to the use of credit ratings, as required by section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The FCA's objectives in proposing this rule are:

- To modernize capital requirements while ensuring that institutions continue to hold enough regulatory capital to fulfill their mission as a government-sponsored enterprise.
- To ensure that the System’s capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules take into account the cooperative structure and the organization of the System.
- To make System regulatory capital requirements more transparent.
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

In the past several years, the Federal banking agencies have been taking important steps to protect the banking system from future financial crises such as the one that occurred from 2007 to 2009. In its work on Basel III, the Basel Committee raised the resilience of the banking sector by strengthening the regulatory capital framework. While it is important to address the issues that resulted in the financial crisis, it is also important to keep the unique cooperative structure of the Farm Credit System in mind as we consider this proposed rule. While the goal of this rulemaking process is to ensure a resilient Farm Credit System, I am also cognizant of the need to create an appropriate balance between sufficient capital requirements and meeting customer/shareholder value expectations. FCA’s capital regulations should result in a framework that provides for safe and sound operations in addition to a level playing field.

An item of particular interest is proposed changes to risk weightings for OFIs (other financing institutions). In this proposed rule we assign either a 20 percent or 100 percent risk weight to loans made to OFIs. As a result, it removes the current intermediate risk weighting of 50 percent for those OFIs that do not qualify for the 20 percent risk weight but have similar attributes. It is important to ensure that this proposed capital treatment does not have a detrimental effect on the System’s funding of OFIs, and I am hopeful that the question we have proposed will result in comments that will further our analysis of this issue.

I want to thank FCA staff for the exhaustive efforts in compiling this proposed rule, and for their responsiveness in addressing the numerous items I have raised during the process. I look forward to reviewing the comments we receive during the comment period.