FEDERAL FARM CREDIT BANKS
FUNDING CORPORATION

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December 3, 2010

David A. Stawick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: CFTC Proposed Rule Regarding Investment of Customer Funds
(RIN 3038–AC15)

Dear Mr. Stawick:

We appreciate the opportunity to comment on the proposed amendments to Regulation 1.25, particularly the Permitted Investments defined in section II.A. As agent for the Farm Credit Banks, the Federal Farm Credit Banks Funding Corporation issues, markets and handles the Federal Farm Credit Bank Consolidated Systemwide Debt Securities ("Systemwide Debt Securities") that provide the majority of funding for the Farm Credit System.

We agree in principal that permitted investments "be consistent with the objectives of preserving principal and maintaining liquidity." However, we disagree with the recently proposed rule change which would prohibit investment in GSE securities unless such securities are guaranteed by the United States government. This modification would prohibit investment in Federal Farm Credit Banks Consolidated Systemwide debt securities. Before, throughout, and after this most recent financial crisis the cooperatively-owned Farm Credit System ("Farm Credit" or "System") has performed in a remarkable fashion. The System managed through severe market turmoil and periods of limited liquidity while at the same time performing its mission to provide sound, dependable funding for American agriculture and rural America. The System did not request, receive, or require any assistance from any entity during this crisis. The System has been and remains profitable, well capitalized, and liquid.

Systemwide Debt Securities, and particularly Farm Credit Discount Notes, have been a staple in risk-adverse investor portfolios since the System's inception in 1916 and have proven their creditworthiness across a range of market environments. During the most recent (systemic) financial "crisis" (2007-09) the Farm Credit System was able to issue and redeem over $400 billion in Discount Notes annually while also accessing the capital markets to issue over $100 billion[1] per year in longer-maturity debt securities. Domestic and international investors were able and often eager to purchase our safe, AAA-rated, GSE securities that offered an attractive and valuable diversification opportunity.

Certainly, the perception, whether justified or not, of the "implicit" guarantee that results from our federal charter is a factor for some investors. Investors also appreciate that the Farm Credit System is a well-managed, conservatively run, and profitable financial institution. The Farm Credit System generated record earnings in 2008, near-record earnings in 2009, and during that same year was able to build capital levels to 15%[2] of assets while at the same time paying $539

[1] Issuance of term debt - Systemwide debt securities with final maturity terms greater than one year – totaled $116 billion in 2009, $111 billion in 2008, and $66 billion in 2007
[2] The System reported combined capital of $33 billion as of 9/30/2010.

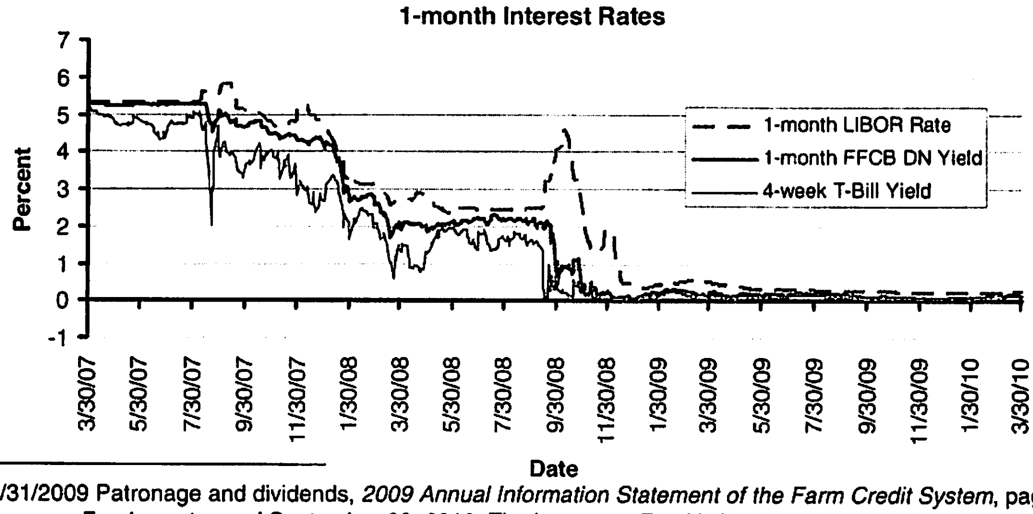
million in patronage[3] (dividends) to the farmers, ranchers, fishermen and other producers who are the borrower-owners of the System.

The System is subject to Congressional legislation and oversight, and is regulated by the Farm Credit Administration ("FCA"), an independent federal regulatory agency. The President of the United States, with the advice and consent of the Senate, is responsible for appointing the full-time board that manages the FCA. The FCA has enforcement powers to ensure the safety and soundness of System institutions and to ensure their adherence to FCA regulations. FCA regulations specify a range of System institution operating requirements including governance, minimum capital levels, minimum liquidity, limits on the size and composition of the investment portfolio, and maximum leverage (through the minimum Net Collateral Ratio requirement). If necessary, the FCA has authority to appoint a conservator or receiver for any Farm Credit System institution.

The Farm Credit System Banks have also funded the $3.2 billion[4] Farm Credit Insurance Fund to insure the timely payment of principal and interest on Systemwide Debt Securities. As provided for in the Farm Credit Act, this insurance fund is administered by the Farm Credit System Insurance Corporation – an independent U.S. government-controlled corporation. The insurance fund is not controlled by any System institution. Insurance premiums are based on each System Bank's pro rata share of outstanding debt securities.

Beyond the investor protection provided by the Insurance Fund, the System Banks are jointly and severally liable for payment of principal and interest on Systemwide Debt Securities and maintain interbank agreements to provide for the early identification and resolution of financial problems that might occur at an individual System Bank.[5]

The historically high correlation of Farm Credit Discount Notes to Treasury Bill yields illustrates the fact that investors consider Farm Credit Discount Notes to be an effective alternative to Treasury Bills. The following graph compares daily 1-month Farm Credit Discount Note yields to 4-week Treasury Bill yields and the 1-month LIBOR rate during the period March 2007 to March 2010. This three year horizon permits a pre-crisis, peak 2007-08 crisis, and "post" crisis comparison. During the peak of the crisis in the fall of 2008 Farm Credit Discount Note yields fell in concert with T-Bill yields.



[3] 12/31/2009 Patronage and dividends, *2009 Annual Information Statement of the Farm Credit System*, page 69.
[4] Insurance Fund assets as of September 30, 2010. The Insurance Fund is invested entirely in U.S. Government guaranteed securities.
[5] Please see the *2009 Annual Information Statement*, page 20, Agreements Among Certain System Institutions, for more information on the Amended and Restated Market Access Agreement and Contractual Interbank Performance Agreement.

The points illustrated above are intended to convey that the Farm Credit System has been and remains a unique, well-managed, and positive story among GSEs. Our System has successfully performed our important mission of delivering credit to agriculture and rural communities during the Great Depression, WWII, the high inflation episode of the late 1970s and early 1980s, various recessions, energy crises, wars, Enron and the Dot.Com bubble, 9/11, and the most recent bursting of housing and consumer debt bubbles. We believe our Systemwide Debt Securities have performed in a similarly successful fashion for investors.

We therefore, respectfully, object to the proposed amendment that would restrict investments in GSE securities to only those that have an explicit federal guarantee. This amendment will reduce the universe of eligible investments which runs counter to the stated objective of promoting diversification. The restriction would also be expected to reduce the return realized in customer segregated accounts, which will increase the overall cost of maintaining derivative positions and necessary hedges.

In contrast to this CFTC proposal, the SEC in a March 2010 revision to its Rule 2a-7 recognized the safety and liquidity of short-term GSE obligations by including debt securities that mature in 60 days or less in the weekly liquid asset bucket for money market mutual funds.

The CFTC received comments following its May 2009 advance notice to solicit public comment ("ANPR") and received a dozen replies, mostly from futures market participants. At that time, the Commission received a recommendation to eliminate asset classes from the list of eligible investments with "negligible" outstanding balances or those that were not "utilized to any material extent." The Dodd-Frank Act will force a fundamental change on the derivative markets. There will be a large amount of new, outstanding, over-the-counter derivative notional volume to be accommodated by the new derivative clearing organizations. We would caution that with the expected increase in margin to invest the need for and future utilization of various asset classes could change significantly from the pre-Dodd-Frank Act experience. We recommend waiting until the transition to clearing is completed and a review of utilization post-implementation can be conducted before eliminating any asset classes from the list of eligible investments.

Finally, by suggesting that GSE debt securities "may pose an unacceptable level of risk," we are very concerned that the CFTC could inadvertently damage investor demand for Federal Farm Credit Bank Consolidated Systemwide Debt Securities generally. Apart from the specific application of the investment of customer segregated funds, the decision to exclude GSE debt securities from the list of eligible investments could establish a regulatory precedent that could adversely affect our ability to issue new debt securities, potentially reducing liquidity and issuance flexibility, leading to increased borrowing costs that would make agricultural loans more expensive, and possibly impairing our ability to deliver on our mission.

Again, we thank you for the opportunity to comment on the proposed regulations. We support the CFTC's goal of preserving the principal and maintaining the liquidity of customer collateral. We believe, however, that Farm Credit Systemwide Debt Securities remain an appropriate investment for customer funds and should not be excluded from the CFTC's list of permitted investments.

Sincerely,

Glenn R. Doran

Glenn Doran
Managing Director - Finance