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Appeal

Appeal is a process under which you present evidence to USDA's National Appeals Division which demonstrates why you believe that the Agency's adverse decision is wrong. Subject to the deadline suspensions discussed above, your request for an appeal must be postmarked no later than 30 days from the date you received the Agency's adverse decision.

(i) The right not to be discriminated against

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal agency that administers compliance with this law is the Federal Trade Commission, Equal Credit Opportunity, Washington, D.C. 20580.

The servicing programs described by this Notice are subject to applicable Agency regulations published at 7 CFR Part 766.

For more information or if you have any questions, please contact [this office or the specific office name]at [County Office Address] or telephone [phone number].

1A. Authorized Agency Official Name	1B. Signature	1C. Title

PART 772—SERVICING MINOR PROGRAM LOANS

■ 25. The authority citation for part 772 continues to read as follows:

Authority: 5 U.S.C. 301, 7 U.S.C. 1989, and 25 U.S.C. 490.

§ 772.5 [Amended]

■ 26. Amend § 772.5 as follows:
■ a. In paragraph (c)(1), remove the reference ''7 part 1962, subpart A'' and add the reference ''part 765 of this chapter'' in its place; and
■ b. In paragraph (c)(3), remove the reference ''7 CFR part 1965, subpart A'' and add the reference ''part 765 of this chapter'' in its place.
■ 27. Revise § 772.8(b) to read as follows:

§ 772.8 Sale or exchange of security property.

* * * * *

(b) For IMP loans, a sale or exchange of real estate or chattel that is serving as security must be done as specified in part 765 of this chapter.

Signed on August 27, 2013.

Juan M. Garcia,

Administrator, Farm Service Agency.

[FR Doc. 2013–25836 Filed 10–31–13; 8:45 am]

BILLING CODE 3410–05–C

FARM CREDIT ADMINISTRATION

12 CFR Part 652

RIN 3052–AC83

Federal Agricultural Mortgage Corporation Funding and Fiscal Affairs; Farmer Mac Liquidity Management

AGENCY: Farm Credit Administration.

ACTION: Final rule.

SUMMARY: The Farm Credit Administration (FCA, we or us) adopts a final rule that amends its liquidity management regulations for the Federal Agricultural Mortgage Corporation (Farmer Mac). The purpose of the final rule is to strengthen liquidity risk management at Farmer Mac, improve the quality of assets in its liquidity reserves, and bolster its ability to fund its obligations and continue operations during times of economic, financial, or market adversity.

DATES: This regulation will be effective 180 days after date of publication in the **Federal Register**, provided either or both Houses of Congress are in session for at least 30 calendar days after publication of this regulation in the **Federal Register**. We will publish a notice of the effective date in the **Federal Register**.

FOR FURTHER INFORMATION CONTACT: Joseph T. Connor, Associate Director for Policy and Analysis, Office of Secondary Market Oversight, Farm Credit Administration, McLean, VA 22102–5090, (703) 883–4280, TTY (703)

883–4056; or Richard A. Katz, Senior Counsel, Office of General Counsel, Farm Credit Administration, McLean, VA 22102–5090, (703) 883–4020, TTY (703) 883–4020.

SUPPLEMENTARY INFORMATION:

I. Objectives

The objectives of the final rule are to:

- Improve Farmer Mac's capacity to pay its obligations and fund its operations by maintaining adequate liquidity to withstand market disruptions and adverse economic or financial conditions;
- Strengthen liquidity management at Farmer Mac;
- Increase the minimum liquidity reserve requirement for Farmer Mac from 60 to 90 days, and revise how it is computed;
- Require Farmer Mac to hold more high-quality liquid assets in its liquidity reserve; and,
- Require Farmer Mac to hold supplemental liquidity that it can draw upon in an emergency and is sufficient to cover its liquidity needs beyond 90 days.

II. Background

Congress established Farmer Mac in 1988 as part of its effort to resolve the agricultural crisis of the 1980s. Congress expected that a secondary market for agricultural and rural housing mortgages would increase the availability of competitively priced mortgage credit to America's farmers, ranchers, and rural homeowners.

Striking an appropriate balance between achieving its mission and managing risk is a guiding principle that the FCA follows when it issues regulations for Farmer Mac.[1] Specifically, the intent of this regulation is to allow Farmer Mac sufficient flexibility to fully serve its customers and to provide an appropriate return for investors while ensuring that it engages in safe and sound operations.[2] Our primary supervisory and regulatory objective is to ensure that Farmer Mac will achieve its congressional mandate of increasing the availability of affordable credit for farmers, ranchers, rural homeowners, and rural utilities in a safe and sound manner.

Liquidity is a financial institution's ability to meet its obligations as they come due without substantial negative impact on its operations or financial condition.[3] The availability of an appropriately sized portfolio comprised of highly liquid assets is necessary for Farmer Mac to conduct its business and to achieve its statutory purposes.[4] Although Farmer Mac's liquidity reserve portfolio must contain low and manageable risk, it can appropriately include investments that provide a positive return on the portfolio and still fulfill the investment purposes authorized by regulation under most market conditions.[5]

Liquidity risk is the risk that Farmer Mac could become unable to meet expected obligations and reasonably estimated unexpected obligations as they come due without substantial adverse impact on its operations or financial condition.[6] Reasonably estimated liquidity risk should consider plausible scenarios of debt market disruptions, asset market disruptions (such as industry sector security price risk scenarios), and other contingent liquidity events.[7] Contingent liquidity events could include significant changes in overall economic conditions, events that would impact the market's perception of Farmer Mac,[8] or a broad and significant deterioration in the agriculture sector. We believe that these events could have a potential impact on Farmer Mac's need for cash to fulfill obligations under the terms of products such as Long-Term Standby Purchase Commitments and AgVantage Plus bond guarantees.[9]

III. History of This Rule

The financial crisis in 2008 caused the FCA to review its regulations governing investments and liquidity for all Farm Credit System (FCS or System) institutions,[10] including Farmer Mac. The FCA commenced this rulemaking to revise its existing regulations pertaining to non-program investments and liquidity at Farmer Mac by publishing an advance notice of proposed rulemaking (ANPRM) on May 19, 2010.[11] After reviewing and considering the comments that we received, we published proposed rule on November 18, 2011.[12] The 60-day comment period ended on January 17, 2012.

By a letter dated April 17, 2013, Farmer Mac asked us to reopen the comment period for 30 days. According to its letter, Farmer Mac ''commenced an evaluation and rebalancing of its investment portfolio in the context of the proposed liquidity requirements'' after the final investment management rule became effective. Farmer Mac claimed that its evaluation exposed possible concerns regarding the proposed liquidity requirements, which in its opinion merited further consideration by the FCA. On May 8, 2013, we reopened the comment period[13] so that all interested parties could bring to our attention issues and concerns that they believe warrant further or heightened FCA scrutiny. The second comment period expired on June 7, 2013.

The proposed rule covered several subjects. The FCA has decided to finalize different proposed regulations separately.[14] On November 5, 2012, the FCA adopted a final rule that amended its investment management regulations.[15] Today, the FCA enacts a final liquidity rule for Farmer Mac. Next, the FCA will adopt a final rule pertaining to eligible investments for Farmer Mac, which will conclude the rulemaking that began in 2010.

The FCA proposed to amend three regulations that apply to liquidity management at Farmer Mac. Proposed § 652.5 contained four definitions pertaining to liquidity. Proposed § 652.35 addressed liquidity management at Farmer Mac. The focus of proposed § 652.35 is board policies that establish internal controls, reporting requirements, and risk management practices, such as the Contingency Funding Plan (CFP) and the Liquidity Maturity Management Plan (LMMP). Effective liquidity management in accordance with proposed § 652.35 ensures that Farmer Mac always maintains adequate liquidity as economic and financial conditions change. Proposed § 652.40 established requirements concerning Farmer Mac's liquidity reserve and supplement liquidity buffer. As proposed, § 652.40 would:

- Increase the minimum days of liquidity in Farmer Mac's liquidity reserve from 60 to 90 days;
- Divide the 90-day liquidity reserve into three tiers so Farmer Mac has a sufficient amount of cash and cash-like instruments available to pay its

[1] *See* 76 FR 71798 (Nov. 18, 2011).

[2] *Id.*

[3] See 76 FR 71798, *supra* at 71799.

[4] *Id.*

[5] *Id.*

[6] *Id.*

[7] *Id.*

[8] For example, reputation risk and legal risk could affect the market's perception of Farmer Mac.

[9] *Id.*

[10] We proposed new liquidity rules for FCS banks in 2011. *See* 76 FR 80817 (Dec. 27, 2011). We adopted the final liquidity rule for these banks earlier this year. *See* 78 FR 23438 (Apr. 18, 2013).

[11] *See* 75 FR 27951 (May 19, 2010).

[12] *See* 76 FR 71798 *supra.*

[13] 78 FR 26711 (May 8, 2013).

[14] One regulation, § 652.5, contains all the definitions that apply to our investment and liquidity regulations for Farmer Mac. Each final rule that we adopt through this extensive rulemaking process will amend different definitions in § 652.5.

[15] 77 FR 66375 (Nov 5, 2012). This final rule amended §§ 652.10, 652.15, 652.25, 652.30 and 652.45.

obligations and fund its operations for next 15 days, and maintain a pool of cash and highly liquid instruments for the both the subsequent 15 days and the 60 days after that; and,

- Require Farmer Mac to hold supplemental liquidity that would provide a longer term, stable source of funding beyond the 90-day minimum liquidity reserve.

Proposed § 652.40 would also specify corrective actions that the FCA could compel Farmer Mac to implement under a reservation of authority.

IV. Comment Letters

A. Overview

The FCA received comment letters from Farmer Mac and the Farm Credit Council when the initial comment period expired on January 17, 2012. We received another comment letter from Farmer Mac when the second comment period expired on June 7, 2013.

B. Comments Received During the First Comment Period

The Farm Credit Council's comment letter asked us to consider comment letters that it and its members filed in response to other proposed rules concerning investment management and liquidity at FCS banks and associations.[16] According to the commenter, most of the concepts pertaining to investment management and liquidity at FCS banks and associations also apply to Farmer Mac. In this context, the Farm Credit Council ''strongly encouraged'' the FCA to adopt liquidity rules for Farmer Mac that ''more closely mirror the requirements'' for FCS banks. In large measure, the Farm Credit Council asked us to closely align the liquidity regulations for FCS banks and Farmer Mac because it expressed concern that the FCA treats Farmer Mac more favorably than other FCS institutions. We will address this issue in greater detail below.

Both commenters acknowledged that the proposed rule reflects the FCA's intent to strengthen Farmer Mac's safety and soundness. However, they opined that the proposed liquidity rule is overly prescriptive and imposes undue regulatory burden on Farmer Mac. According to the commenters, the proposed rule goes beyond establishing an appropriate regulatory and supervisory framework that ensures that Farmer Mac safely and soundly manages its liquidity. Instead, the commenters claim that the proposed rule imposes the FCA's judgment on business matters that Farmer Mac's board and management should decide.

The commenters raised a number of substantive issues about the proposed liquidity rule, and they recommended specific revisions for the final rule. The main concerns that the commenters expressed are whether:

- The proposed rule is too prescriptive in assigning responsibilities to the board and management for devising and implementing liquidity policies for Farmer Mac;
- The regulation should require Farmer Mac to adopt a new internal LMMP; and,
- The FCA's regulatory approach for liquidity management at both Farmer Mac and FCS banks should be consistent and equitable.

C. Comments Received During the Second Comment Period

During the second comment period, Farmer Mac raised two additional issues. First, Farmer Mac requested that the final regulation allow it to include the portion of loans that it owns and are guaranteed by the United States Department of Agriculture (USDA) in the second and third level of its liquidity reserve. Under the proposed rule, loans guaranteed by USDA would qualify only as supplemental liquidity. Second, Farmer Mac asked the FCA to phase in the new liquidity requirements over a 6-month period after the final rule is published. According to the commenter, the new rule would require Farmer Mac to hold a larger amount of investments for liquidity than it has historically held, and under the circumstances, it would need time to adjust its liquidity portfolio without sacrificing its long-term stability.

V. The FCA's Approach in the Final Rule

The commenters have not persuaded the FCA that the proposed rule is unduly burdensome or overly prescriptive. Recent financial crises and continuing global economic uncertainty clearly demonstrate that strong liquidity management practices and access to reliable sources of emergency funding are crucial both to the viability of individual financial institutions, including Farmer Mac, and to the financial system as a whole. We proposed substantial revisions to § 652.35 to redress vulnerabilities in liquidity management that we identified in the aftermath of the 2008 crisis.[17] Proposed § 652.40 would require Farmer Mac to retain an adequate liquidity reserve. The purpose of this rulemaking is to strengthen Farmer Mac's ability to withstand future crises by limiting the adverse effects that sudden changes in economic, financial, and market conditions may have on its liquidity. For these reasons, both the proposed and final rules follow the same basic supervisory and regulatory approaches to liquidity.

The commenters offered many constructive and practical suggestions for improving the regulation that we incorporated into the final rule. Based on these comments, we restructured and refined the rule so it is easier to read, understand, and apply. Additionally, the comments caused us to reconsider and revise some our positions. As we explain the final rule and how it differs from our original proposal, we will respond to comments about our overall regulatory and supervisory approach to liquidity as well as specific issues arising from each provision of §§ 652.35 and 652.40, as well as four definitions in § 652.5.

A. Core Concepts in the Final Farmer Mac Liquidity Rule

Our new liquidity regulation for Farmer Mac follows the fundamental concepts of the principle-based approach of the Basel Committee on Banking Supervision (Basel Committee)[18] and the Federal banking agencies.[19] These fundamental concepts apply to Farmer Mac as well as other financial institutions. The comprehensive supervisory approach developed by the Basel Committee and the Federal banking agencies effectively strengthens both the liquidity reserve and the liquidity management practices at financial institutions. The most important features of the framework of

[16] The FCA proposed an investment management rule for FCS banks and associations on August 18, 2011. *See* 76 FR 51289. On December 27, 2011, the FCA proposed to amend its liquidity rule for FCS banks. *See* 76 FR 80817.

[17] *See* 76 FR 71798 (Nov. 18, 2011).

[18] In September 2008, the Basel Committee issued the *Principles for Sound Liquidity Risk Management and Supervision,* which contained 17 core principles detailing international supervisory guidance for sound liquidity risk management. In December, 2010, the Basel Committee issued *Basel III: International framework for liquidity risk measurement, standards, and monitoring (Basel III).*

[19] The Federal banking agencies are the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration. The former Office of Thrift Supervision was also a Federal banking agency, and it issued joint guidance about liquidity with the other regulators prior to July 2011. Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act abolished the Office of Thrift Supervision and transferred its supervisory and regulatory authorities over different institutions the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. *See* Public Law 111–203, Title III, § 312, 124 Stat. 1376, 1521 (Jul. 21, 2010).

other regulators that we considered and incorporated in this rule pertain to: (1) A multiple-tiered approach to the liquidity reserve that requires institutions keep a sufficient amount of cash and highly liquid investments on hand to pay obligations that fall due in next 15, 30, and 90 days; (2) supplemental liquidity that provides Farmer Mac with a stable source of liquidity over a longer period of time; (3) specific policies and internal controls that combat liquidity risk; and, (4) contingency funding planning based in part on the results of liquidity stress tests. This principle-based approach is comprehensive, yet flexible to apply to all types of financial institutions of varying size, structure, and complexity. This approach is suitable to Farmer Mac's business model and operations, and we anticipate that it will enhance Farmer Mac's liquidity.

Basel III and other guidance from the Federal banking agencies are not the only basis for the new liquidity regulation. The revised regulation also builds upon the Farmer Mac's own initiatives to improve liquidity management as well as the FCA's experiences from examining and regulating liquidity risk management. In the aftermath of the financial crisis in 2008, Farmer Mac, on its own initiative, increased the size and diversity of its investment portfolio. As part of this effort, Farmer Mac reduced its hold limits for certain categories of investments so it would not have too much exposure to concentrations in certain industries or asset classes.

Although both commenters allege that our new liquidity rules for Farmer Mac are too detailed and prescriptive, we observe that these regulations follow the core concepts of the principle-based approach of other regulators as previously discussed. These requirements will place Farmer Mac in a stronger position to endure and outlast future crises that could impede its access to funding. While the commenters may view this approach as too detailed and prescriptive, we conclude that the final rule establishes essential minimum standards from a safety and soundness perspective.

B. Equitable and Consistent Treatment of Farmer Mac and FCS Banks

The Farm Credit Council, on behalf of its membership, commented in this and related rulemakings that the FCA's investment and liquidity regulations generally treat Farmer Mac more leniently and favorably than FCS banks and associations. The Farm Credit Council's comment letter expressed support for ''the basic concept that the liquidity standards for Farmer Mac and FCS institutions should essentially be the same,'' and it acknowledged that our regulations strive to achieve this objective. However, the commenter claimed that, ''differences remain between what is proposed for Farmer Mac and what is proposed for FCS institutions.'' From the Farm Credit Council's perspective, the ''differences in business models between Farmer Mac and FCS institutions do not justify the differences in liquidity and investment management rules proposed by the [FCA].'' For these reasons, the commenter encouraged us to revise our rules for Farmer Mac so they ''more closely mirror'' our regulations for other FCS institutions.

Our regulatory and supervisory approach for liquidity is the same for both Farmer Mac and FCS banks. Farmer Mac and FCS banks have different corporate structures, and they offer retail lenders different products for extending credit to agriculture, rural homeowners, and rural utilities. However, Farmer Mac and Farm Credit banks depend on access to market to issue the debt obligations that, for the most part, fund their respective operations. If access to market becomes obstructed during times of economic or financial stress, FCS banks and Farmer Mac must draw on their liquidity reserves to pay their obligations and fund their operations. In this context, inadequate liquidity poses the same challenges and risks to both branches of the System, and it raises the same core safety and soundness concerns for the FCA. Accordingly, we agree with the commenter that the liquidity regulations for Farmer Mac and Farm Credit banks should ''mirror'' each other to the greatest extent possible. We have significantly revised the structure and text of the final liquidity regulations for Farmer Mac so they more closely resemble the final liquidity regulations for Farm Credit banks. We will discuss these conforming changes in greater detail in the Section-by-Section Analysis of this preamble.

The Farm Credit Council claims that Farmer Mac enjoys two advantages over the rest of the System, which it asked us to consider so our final regulations promote equitable and consistent treatment in the markets where Farmer Mac competes with FCS banks and associations. As the commenter points out, Farmer Mac is a publicly traded stock corporation while other FCS institutions are cooperatives. Additionally, Farmer Mac has a line of credit with the Treasury whereas the rest of the FCS has no assured governmental lender of last resort at this time. According to the commenter, ''Farmer Mac enjoys the best of both worlds—private capital that can be traded at fair value and an explicit public backstop.''

From the FCA's perspective, whether organized as a publicly traded stock corporation or organized as cooperative, Farmer Mac and System banks face roughly the same challenges when it comes to market access and managing liquidity risks associated with market disruptions. Both Farmer Mac and Farm Credit banks must maintain adequate high-quality liquidity at all times.

We now respond to the Farm Credit Council's claim that Farmer Mac's authority under section 8.13 of the Act [20] to issue up to $1.5 billion in obligations to the Treasury to cover losses on its guarantees gives it an advantage over FCS banks, which have no assured governmental lender of last resort. According to this statutory provision, Farmer Mac may borrow from the Treasury ''solely for the purpose'' of honoring guarantees of timely payment of principal and interest it provided for securities or obligations backed by pools of qualified loans. Furthermore, section 8.10(c) of the Act prohibits Farmer Mac from issuing obligations to the Treasury until the reserve it maintains to cover losses on its guarantees has been exhausted.

In this context, the authority to borrow from the Treasury is of more value to Farmer Mac in an agricultural credit crisis (resulting in widespread defaults on pools of qualified loans that it has guaranteed) rather than in a liquidity crisis that impedes market access. In all probability, an agricultural credit crisis will unfold over a longer period of time whereas a liquidity crisis may be much more sudden, immediate, and short-term. Farmer Mac could not borrow from the Treasury if economic or financial turmoil outside of the agricultural sector were to obstruct market access as long as it could still honor its guarantees and its reserve is not exhausted. In a scenario such as the 2008 crisis, Farmer Mac's emergency backstop with the Treasury does not give it a competitive advantage over FCS banks.

[20] Section 8.13 of the Act authorizes Farmer Mac to issue obligations to the Secretary of Treasury and use the proceeds solely for the purpose of fulfilling its obligations under any guarantee that Farmer Mac provided under title VIII of the Act. The aggregate amount of Farmer Mac obligations that the Secretary of Treasury may hold at any time shall not exceed $1,500,000,000. Under section 8.13 of the Act, the Secretary of Treasury shall: (1) Set the interest rate that Farmer Mac shall pay on its obligations based on a specific formula; and, (2) require Farmer Mac to repurchase its obligations within a reasonable period of time.

In further response to the commenter, we emphasize that both Farmer Mac and FCS banks must always maintain sufficient liquidity to absorb the impact of market disruptions and economic downturns. Through effective FCA regulation and supervision of the System, both Farmer Mac and FCS banks will be able to reassure investors that they have adequate liquidity to meet their obligations when they are due. New liquidity regulations for both Farmer Mac and System banks bolster their ability to withstand severe economic and financial stress on their own, regardless of whether or not they have an assured governmental lender of last resort. As discussed earlier, these new liquidity regulations are modeled after the principle-based approach of Basel III, but they have been adjusted and calibrated for the unique circumstances and structures of both Farmer Mac and FCS banks. For all these reasons, we conclude that Farmer Mac's authority to borrow from the Treasury does not give it a competitive advantage over FCS banks when it comes to liquidity.

VI. Section-by-Section Analysis of the Rule

We received no comments about many of the changes that we proposed to §§ 652.35 and 652.40. Except for minor stylistic or technical changes that are explained elsewhere in this preamble, we are finalizing those provisions as proposed without further explanation.

A. Section 652.5—Definitions

We proposed to add definitions for ''Cash,'' ''Contingency Funding Plan,'' ''Liability Maturity Management Plan,'' and ''Liquidity Reserve'' to § 652.5. We received no comments about the last three definitions, and the final rule adopts these definitions as proposed. However, the cross-references in the definitions of ''Contingency Funding Plan'' and ''Liability Maturity Management Plan'' have been changed to reflect the renumbering of the paragraphs in the final § 652.35, which resulted from other changes the commenters requested.

Proposed § 652.5 defined ''cash'' to include ''the insured amount of balances held in deposit accounts at Federal Deposit Insurance Corporation-insured banks.'' Farmer Mac stated that the proposed rule is unclear about how the liquidity rule would treat existing cash balances that Farmer Mac holds in deposit that exceed the deposit insurance limit. We responded to this comment by amending the definition of ''cash'' so it no longer requires bank deposits in Farmer Mac's liquidity portfolio to be insured. As a result, cash held in Farmer Mac's liquidity reserve may include deposits that exceed the amount covered by FDIC insurance. The risk of loss in uninsured deposits generally is low over the short-term. Both § 652.10 and Farmer Mac's fiduciary responsibilities require Farmer Mac to establish appropriate risk limits, including credit quality standards and concentration limits for its investments. Additionally, § 652.10(f)(3) requires Farmer Mac to establish and maintain processes to monitor and evaluate changes in the credit quality of investments and counterparties. Accordingly, both the FCA and Farmer Mac closely monitor the strength and condition of depository institution counterparties where Farmer Mac maintains accounts that exceed the deposit insurance limit.

B. Section 652.35—Liquidity Management

Proposed § 652.35 governs liquidity management at Farmer Mac. The five provisions of proposed § 652.35 addressed: (1) Board responsibility; (2) content of Farmer Mac's liquidity policy; (3) reporting requirements; (4) LMMP; and, (5) CFP. We revised proposed § 652.35 in response to comments from both Farmer Mac and the Farm Credit Council.

1. Section 652.35(a)—Board Responsibilities

Proposed § 652.35(a) addresses the responsibilities of the board of directors for effective liquidity management at Farmer Mac. The FCA proposed only minor changes to existing regulation governing the board's responsibility for Farmer Mac's liquidity reserve policy.[21] Essentially, this regulatory provision would require Farmer Mac's board of directors to adopt a liquidity policy, which may be integrated into a comprehensive asset-liability management or enterprise-wide risk management policy. Under proposed § 652.35(a), the risk tolerance embodied in the liquidity policy must be consistent with the investment management policies required by § 652.10. The next sentence of the proposed rule would require the board to ensure that adequate internal controls are in place so management complies with the board's liquidity policies. Proposed § 652.35(a) would require the board of directors, or a designated committee of the board, at least annually to review and ''affirmatively validate'' the sufficiency of Farmer Mac's liquidity policy. The board of directors must approve any changes to the liquidity policy, and it must provide a copy of its revised liquidity policy to OSMO within 10 business days of adoption.

We received a general comment about proposed § 652.35(a) from Farmer Mac. This commenter reiterated concerns that it expressed in earlier phases of this rulemaking that the new investment management and liquidity regulations should establish broad guidelines for prudent risk management rather than prescribing operational business practices to Farmer Mac. Although the FCA emphasized that the objective of this rulemaking is to establish an appropriate regulatory and supervisory framework to promote Farmer Mac's long-term viability and safety and soundness,[22] the commenter opined that the level of detail in the proposed rule imposes the FCA's business judgments on Farmer Mac's board.

Farmer Mac's comments about board responsibility are broad in scope and general in nature. In fact, Farmer Mac did not offer specific comment about proposed § 652.35(a). Instead, Farmer Mac's comments seem applicable to both § 652.35(a) and § 652.10(a), which addressed board responsibility for investment management.[23] The preamble to the final investment management rule concluded that § 652.10(a) merited only minor, technical, clarifying, and non-substantive changes[24] because it was not overly prescriptive or unduly burdensome. This same reasoning applies here.

We made one revision to proposed § 652.35(a). A sentence in proposed § 652.35(a) would have required ''the board of directors or a designated committee of the board to review and affirmatively validate the sufficiency of the liquidity policy'' at least once a year. The final rule omits the phrase ''affirmatively validate'' from this sentence. This revision addresses concerns by both commenters that regulatory provisions pertaining to board responsibility are overly prescriptive. Additionally, this change aligns the regulatory provisions for FCS banks and Farmer Mac, as the Farm Credit Council requested. We agree with the Farm Credit Council that our regulatory approach pertaining to board responsibility for effective liquidity management at Farmer Mac and FCS

[21] *See* 76 FR 71798, 71810 (Nov. 18, 2011).

[22] *See* 76 FR 71798, 71799 (Nov. 18, 2011).

[23] Farmer Mac's comment letter contained footnotes that referred to passages in the preamble to the proposed rule that addressed investment management practices under § 652.10.

[24] *See* 77 FR 66375, *supra* at 66377.

banks should be consistent. This change to § 652.35(a) mirrors changes that the FCA has already made to §§ 652.10(a) and 615.5134(a), which govern investment management at Farmer Mac and liquidity management at FCS banks, respectively. We refer readers to the preambles to the final investment management rule [25] for Farmer Mac and the final liquidity rule for FCS banks for an in-depth explanation of this revision.[26]

2. Section 652.35(b)—Policy Content

Proposed § 652.35(b) focused on the content of the board's liquidity policies. As the preamble to the proposed rule explained, the FCA planned to recodify an existing regulation, § 652.20(d), as § 652.35(b) with only minor, non-substantive revisions.[27] Proposed § 652.35(b) would require Farmer Mac to address 11 different issues, at a minimum, in its liquidity policies.[28]

The FCA received no specific comments about proposed § 652.35(b). However, comments we received from the Farm Credit Council about parity between the liquidity rules for FCS banks and Farmer Mac, and the LMMP are relevant. Accordingly, we are modifying final § 652.35(b) in response to these comments. First, the final rule omits proposed §§ 652.35(b)(4) and 652.35(b)(11), which respectively require Farmer Mac's liquidity policy to address maturity limits and credit quality standards and the CFP. We eliminated a comparable provision from the final liquidity rule for FCS banks,[29] and the same logic applies to liquidity management at Farmer Mac. A full substantive explanation of our reasons for omitting these provisions from our final regulations is available in the preamble to final liquidity rule for FCS banks.[30]

The final rule also omits proposed § 652.35(b)(10), which would have required the board's liquidity policy to address the LMMP. We decided to streamline our regulatory approach to the LMMP in response to a comment from the Farm Credit Council. Although the FCA has decided to retain the LMMP, the preamble to final § 652.35(e) explains in greater detail below why changes to this regulation establishes an appropriate balance between safeguarding Farmer Mac's safety and soundness, and eliminating unnecessary regulatory burden. A corresponding change is that final § 652.35(b) will no longer require Farmer Mac's board to specifically address the LMMP in its policy.

On our own initiative, we have omitted proposed § 652.35(b)(2) from the final rule. This provision would have required a listing in the board's policy of the specific asset classes and characteristics that could have been used to meet Farmer Mac's liquidity objectives. Although we received no specific comment about proposed § 652.35(b)(2), we have decided to omit this provision from the final rule because it is redundant with final § 652.10(b) and (c), which are provisions of the investment management rule that amply cover board policies for all non-program investments at Farmer Mac. This revision, which streamlines our regulations in part 652, responds to claims by both commenters that ''regulatory layering'' in our investment management and liquidity rules for Farmer Mac results in regulations that are too complicated and burdensome.

The omission of four provisions from the proposed regulation has caused us to renumber the paragraphs of final § 652.35. On our own initiative, we modified proposed § 652.35(b)(7), which has been redesignated as final § 652.35(b)(5). As proposed, this provision would require the board's policy to address exception parameters and ''post'' approvals needed with respect to the liquidity reserve. We omitted the word ''post'' from this provision because such approvals may occur at any time.

3. Section 652.35(c)—Reporting Requirements

Proposed § 652.35(c) recodified, with minor revisions, the existing reporting requirements for Farmer Mac's liquidity portfolio.[31] This provision contains the periodic and special reporting requirements to Farmer Mac's board and special reporting to OSMO.

We received no specific comments about proposed § 652.35(c). We finalize this regulatory provision with only one revision to § 652.35(c)(1)(ii). Whereas proposed § 652.35(c)(1)(ii) would have required management to report any deviations from Farmer Mac's liquidity policy,[32] or failure to meet the board's liquidity target ''immediately'' to the board, the final rule requires management to report such deviations and failures to the board before the end of the quarter if it has the potential to cause material loss. This change is identical to a change to the final liquidity rule for FCS banks,[33] and it responds to the Farm Credit Council's request that the FCA synchronize the investment management and liquidity regulations for Farmer Mac and the rest of the FCS as appropriate. We see no reason for these requirements to differ for FCS banks and Farmer Mac. The preamble to the final liquidity rule for FCS banks explains the substantive reasons for this change,[34] and this same logic applies to Farmer Mac.

4. Section 652.35(d)—LMMP

Proposed § 652.35(d) would require Farmer Mac's board to adopt an LMMP that establishes a funding strategy, which provides for effective diversification of the sources and tenors of funding. Under our proposal, the LMMP must: (1) Include targets of acceptable ranges of the proportion of debt issuances maturing with specific time intervals; (2) reflect the board's liquidity risk tolerance; and, (3) consider components of Farmer Mac's funding strategy that offset or contribute to liquidity risk associated with debt maturity concentrations.

The LMMP is an essential part of funding and liquidity risk management governance because it helps establish targets for the term structure of debt. As the preamble to the proposed rule explained, the purpose of the LMMP is to remedy potential funding instability that could result from relying primarily

[25] *See* 77 FR 66375, 66377 (Nov. 5, 2012).

[26] *See* 78 FR 23438, 23443 (Apr. 18, 2013).

[27] 76 FR 71798 *supra* at 71810. On November 5, 2012, the FCA redesignated existing § 652.20(d) as § 652.35(e) without any change, pending the adoption of final liquidity rules for Farmer Mac. *See* 77 FR 66375, *supra* at 66387–66388.

[28] The 11 issues are: (1) The purpose and objectives of the liquidity reserves; (2) a list of specific asset classes and characteristics that can be used to meet liquidity objectives; (3) diversification requirement for the liquidity reserve portfolio; (4) maturity limits and credit quality standards for non-program investments used to meet the minimum liquidity reserve requirement; (5) the minimum and target amounts of liquidity that are appropriate for Farmer Mac, expressed in days of maturing obligations; (6) the maximum amount of non-program investments that can be held for meeting Farmer Mac's liquidity needs, expressed as a percentage of program assets and program obligations; (7) exception parameters and post approvals needed with respect to the liquidity reserve; (8) delegation of authorities pertaining to the liquidity reserve; (9) reporting requirements which must comply with § 652.35(c); (10) a LMMP, as described in proposed § 652.35(d); and, (11) a CFP, as described in proposed § 652.35(e).

[29] 78 FR 23438 *supra* at 23445.

[30] *Id.* at 23445–46.

[31] These reporting requirements were previously located at § 652.20(f) and (g). On November 5, 2012, the FCA redesignated existing § 652.20(f) and (g) as § 652.35(f) and (g), respectively, without any change, pending the adoption of final liquidity rules for Farmer Mac. *See* 77 FR 66375, *supra* at 66388.

[32] Both the preamble and regulatory text of proposed § 652.35(c)(1)(ii) incorrectly referred to the ''bank's'' liquidity policy. We now correct this inadvertent technical error. The final rule correctly refers to the ''Farmer Mac's'' liquidity policy.

[33] *See* § 615.5134(a)(2)(v) of FCA regulations.

[34] 78 FR 23438 *supra* at 23446.

on shorter term debt—especially when the maturity is extended synthetically,[35] which could expose a financial institution to greater counterparty and refunding risks.

We received a comment about the LMMP from the Farm Credit Council. Although the Farm Credit Council favored an LMMP requirement when it commented on the ANPRM, its comment letter on the proposed rule opposed the LMMP. According to the commenter, the concept of an LMMP is far too complex as a regulatory requirement, and it adds to ''regulatory burden without any clear corresponding benefit.'' The Farm Credit Council suggested that the FCA address the LMMP through supervision, rather than by regulation.

The FCA is not removing the LMMP requirement from the final rule because it enhances Farmer Mac's safety and soundness. As the portion of total debt maturing within a short-term time interval increases, Farmer Mac may experience difficulty in rolling over and re-funding its debt if severe financial or economic stress obstructs its access to market. An effective LMMP should place appropriate limits on Farmer Mac's refunding risk consistent with its board's risk tolerance level as set forth in its liquidity and investment management policies.[36]

Final § 652.35(d) creates an appropriate balance between the commenter's concern that the LMMP requirement is too complex and burdensome, and potential safety and soundness concerns that could arise if Farmer Mac pursued certain funding strategies and practices. The final regulation requires Farmer Mac to have an LMMP that its board of directors reviews and approves at least once each year. Under final § 652.35(d), the LMMP must establish a funding strategy that provides for effective diversification of the sources and tenors of funding, and considers Farmer Mac's risk profile and current market conditions. Additionally, the LMMP must include targets of acceptable ranges of the proportion of debt issuances maturing within specific time periods. We have excluded proposed § 652.35(d)(2) and (d)(3) from the final rule in effort to streamline and simplify our regulations governing investment and liquidity management at Farmer Mac. However, the FCA expects that Farmer Mac will consider the board's liquidity risk tolerance and its funding strategies as it develops liquidity and investment management policies and practices. We have also made minor stylistic changes to enhance the clarity of final § 652.35(d).

5. Section 652.35(d)—Contingency Funding Plan

The purpose of a CFP is to address liquidity shortfalls during market disruptions. Proposed § 652.35(e)(1) would require Farmer Mac to have a CFP that ensures sources of liquidity are sufficient to fund normal operations under a variety of stress events. Under our proposal, the CFP should explicitly cover stress events that could threaten Farmer Mac's liquidity, such as: (1) Market disruptions; (2) rapid increases in contractually required loan purchases; (3) unexpected requirements to fund commitments or revolving lines of credit or to fulfill guarantee obligations; (4) difficulties in renewing or replacing funding with desired terms or structures; (5) requirements to pledge collateral with counterparties; and, (6) reduced access to debt markets as a result of asset quality deterioration (including both program and non-program assets).

Proposed § 652.35(e)(2) would require Farmer Mac's board of directors to review and approve the CFP at least once each year and to make adjustments to reflect changes that result from stress tests, Farmer Mac's risk profile, and market conditions. Additionally, the proposed rule would require Farmer Mac to maintain an adequate level of unencumbered and marketable assets in its liquidity reserve that could readily be converted into cash to meet its net liquidity needs based on estimated cash inflows and outflows for a 30-day time horizon under an acute stress scenario. Contingency funding planning and stress testing are integral parts of effective liquidity risk management governance, which require robust processes for identifying, measuring, monitoring, and controlling liquidity risk. As an integral and critical part of its contingency planning, the FCA expects Farmer Mac to be able to quantitatively project and evaluate its expected funding needs and its available funding sources during plausible, but in some cases acute, stress scenarios.

Proposed § 652.35(e)(3) would require the CFP to address four specific areas that are essential to Farmer Mac's efforts to mitigate its liquidity risk. Taken together, these four areas constitute an emergency preparedness plan that should enable Farmer Mac to effectively cope with a full range of contingency that could endanger its liquidity, solvency, and viability. More specifically, the proposed rule would require the CFP to:

- Be customized to the financial condition and liquidity risk profile of Farmer Mac, the board's liquidity risk tolerance, and Farmer Mac's business model. As such, the CFP should be commensurate with the complexity, risk profile and scope of Farmer Mac's operations;
- Identify funding alternatives that Farmer Mac can implement as its access to funding is reduced. Such funding alternatives, at a minimum, would include collateral pledging arrangements to secure funding and possible initiatives to raise additional capital;
- Establish a process for managing events that imperil Farmer Mac's liquidity. The process would assign appropriate personnel and incorporate executable action plans to implement the CFP; and,
- Mandate periodic stress testing that would analyze the possible impacts on Farmer Mac's cash inflows and outflows, liquidity position, profitability, and solvency under a wide variety of stress scenarios. The board would establish and define stress scenarios that are consistent with stress scenarios in other areas of Farmer Mac's risk analysis, such as investment management and interest rate risk management. The basis for these assumptions underlying the stress tests must be well-reasoned and documented. The rule would also require the stress scenarios to address specific and plausible situations that could undermine Farmer Mac's liquidity.

The FCA received no specific comments about contingency funding planning at Farmer Mac. The rationale for § 652.35(e) is sound because contingency funding planning strengthens Farmer Mac's ability to maintain sufficient liquidity during times of severe economic or financial stress. For this reason, we adopt § 652.35(e) as a final rule without significant change. However, we made organizational, conforming, and stylistic changes to final § 652.35(e) so the CFP regulatory requirements for FCS banks and Farmer Mac are almost identical, as the Farm Credit Council requested. Additionally, these changes address both commenters' concerns that the proposed rule was too prescriptive and imposed unnecessary regulatory burden on Farmer Mac.

First, we streamlined and revised § 652.35(e)(1) to enhance its clarity so it is easier to read and understand. Proposed § 652.35(e)(1) stated that, ''Farmer Mac must have a CFP to ensure

[35] *See* 76 FR 71798 *supra* at 71810.

[36] Not all of the instruments that Farmer Mac deploys to fund (and refund) its obligations are strictly a form of debt because, as noted above, swaps synthetically extend debt tenors to offset liquidity risk.

sources of liquidity are sufficient to fund normal operating requirements under a variety of stress events described in paragraph (e)(3)(iv) of this section.'' We eliminated the cross-reference to § 652.35(e)(3)(iv) and relocated the list of stress events that the CFP must cover to final § 652.35(e)(1). Additionally, the phrase ''normal operating requirements'' has been changed to ''normal operations.'' As revised, final § 652.35(e)(1) is closely aligned to the first two sentences of § 615.5134(f) of FCA regulations, which governs contingency funding planning at FCS banks. The lists of stress events that the CFP covers diverge in these two regulations to reflect the fact that FCS banks engage in wholesale lending while Farmer Mac operates a secondary market.

Second, we reversed the order of the two sentences in § 652.35(e)(2) and revised the wording of this paragraph so it is almost identical with the comparable regulatory provision for FCS banks. Our regulatory approach to contingency funding planning is the same for FCS banks and Farmer Mac. However, discrepancies between the structure and text of proposed § 652.35(e)(2) and the last two sentences of § 615.5134(f) may have inadvertently created the impression that the FCA has different policies and expectations for Farmer Mac and Farm Credit banks. We revised final §652.35(e)(2) so it mirrors the applicable passage in §615.5134(f), which clearly and concisely communicates the core regulatory requirements for the CFP.

We revised § 652.34(e)(3), which identifies the issues that Farmer Mac must address in its CFP. We changed the final word of § 652.35(e)(3)(ii) from ''reduced'' to ''impeded'' because it is a more technically accurate description of Farmer Mac's access to market during a severe crisis.

Finally, we revised § 652.35(e)(3)(iv) so it is virtually identical to the comparable regulatory provision for FCS banks. As amended, final § 652.35(e)(3)(iv) retains only the first sentence of the proposed rule, which requires Farmer Mac to conduct periodic stress testing that analyzes possible impacts of its cash flows, liquidity position, profitability, and solvency for a wide variety of stress scenarios. The next three sentences of proposed § 652.35(e)(3)(iv), which specified the types of stress scenarios and assumptions that Farmer Mac should use for its stress tests, have been omitted from the final rule because they are overly prescriptive. However, these three sentences provide guidance about the scenarios and assumptions that Farmer Mac should consider as it stress tests its exposure to liquidity risks. The final rule also omits the last sentence of proposed § 652.35(e)(3)(iv), which would have allowed the FCA, at its discretion, to require specific stress scenarios in response to changes and market and economic outlooks. This provision is a reservation of authority, which the FCA has excluded from its final liquidity rules for both Farmer Mac and Farm Credit banks.

C. Section 652.40—Liquidity Reserve Requirement and Supplemental Liquidity

The FCA proposed to replace § 652.20 with § 652.40, which would strengthen the liquidity reserve requirement for Farmer Mac and require it, for the first time, to hold supplemental liquidity. The purpose of this provision is to ensure that Farmer Mac always has sufficient liquidity to outlast severe economic or financial stress that could obstruct it access to market.

Specifically, proposed § 652.40 would:

- Increase the minimum days of liquidity in Farmer Mac's liquidity reserve from 60 to 90 days;
- Divide the 90-day liquidity reserve into three levels so Farmer Mac's reserves of cash, cash-like instruments, and highly liquid investments are sufficient to pay obligations and fund its operations for the next 15, 30, and 90 days;
- Specify the composition of assets in each level of the liquidity reserve;
- Stipulate the discounts that Farmer Mac should apply to the assets in the liquidity reserve;
- Refine the definitions of ''unencumbered'' and ''marketable'' assets that are suitable for the liquidity reserve; and,
- Require Farmer Mac to maintain supplemental liquidity beyond the 90 days in its liquidity reserve.

Proposed § 652.40 also contained a reservation of authority that would strengthen the FCA's supervisory and regulatory oversight of liquidity management at Farmer Mac. Under this reservation of authority, the FCA could compel Farmer Mac to implement specific corrective actions that would improve liquidity risk management or strengthen its liquidity reserves.

1. Reorganization of Final § 652.40

At the Farm Credit Council's request, we modified and aligned § 652.40 more closely with the final liquidity rule for Farm Credit banks. The structure and format of the liquidity rules for Farmer Mac and Farm Credit banks are not identical because a single regulation governs liquidity at the banks while two regulations, §§ 652.35 and 652.40, separately address liquidity management and the liquidity reserve requirements for Farmer Mac. As explained in greater detail below, both our proposed and final regulations treat supplemental liquidity at Farmer Mac and Farm Credit banks differently. The authorities, business models, and operations of Farmer Mac and FCS banks are different, and Farmer Mac is regulated by a separate office of the FCA as required by the Act, which accounts for certain differences in their liquidity regulations—none of which, we believe, results in material differences in regulatory burden or requirements.

We reorganized the regulation by combining proposed §§ 652.40(a), 652.40(d), and 652.40(e) into single provision, final § 652.40(c). As a result, final § 652.40(c) covers: (1) The core liquidity reserve requirements; (2) supplemental liquidity; (3) the composition of the liquidity reserve; and, (4) the discounts that Farmer Mac will apply to various assets in its liquidity reserve and supplemental liquidity buffer.

As a result of the restructuring of the rule, the definitions of ''unencumbered'' and ''highly marketable'' in proposed § 652.40(b) and (c) have been redesignated as final § 652.40(a) and (b), respectively. We made additional revisions to these two provisions in response to the comments we received.

2. Section 652.40(a)—Unencumbered Investments

We revised the definition of ''unencumbered'' in final § 652.40(a) so it is virtually identical to the same definition in the liquidity regulation for Farm Credit banks. As a result, we split the first sentence in proposed § 652.40(b) into three sentences. The first sentence of the final rule reiterates that all investments that Farmer Mac holds in its liquidity reserve and as supplemental liquidity must be unencumbered. The second sentence of final § 652.40(a) clarifies that an investment is ''unencumbered'' if it is free of lien, and it is not explicitly or implicitly pledged to secure, collateralize, or enhance the credit of any transaction. The third sentence states that unencumbered investments held in the liquidity reserve cannot be used as a hedge against interest rate risk if liquidation of that particular investment would expose Farmer Mac to a material risk of loss. These changes are minor and stylistic, and they do not substantively alter the meaning of this regulatory provision. These changes respond to the Farm Credit Council's request that final liquidity regulations for Farmer Mac and Farm Credit banks reflect each other to the greatest extent possible.

The proposed rule would have prohibited Farmer Mac from using an unencumbered investment in its liquidity reserve or supplemental liquidity buffer as a hedge against any other exposure. In contrast, final § 652.40(a) is narrower in scope because an unencumbered investment held for liquidity cannot be used as a hedge against interest rate risk if liquidation of that particular investment would expose Farmer Mac to a material risk of loss. We revised this provision to reduce unnecessary regulatory burden on Farmer Mac. From a safety and soundness perspective, Farmer Mac should have flexibility to use unencumbered assets in its liquidity reserve or supplemental liquidity buffer to hedge against other exposures unless such hedges expose it to material risk of loss. Pursuant to § 652.15, interest rate risk is the only other risk that Farmer Mac would hedge against by using assets it holds for liquidity. As a result of this revision, our regulations for Farmer Mac and FCS banks are now consistent on the issue. We refer our readers to the preamble of the final liquidity rule for FCS banks, which contains a comprehensive substantive explanation of the FCA's regulatory approach towards the FCS banks' use of investments in the liquidity reserve to hedge interest risk rate exposures.[37]

3. Section 652.40(b)—Marketable Investments

Proposed § 652.40(c) required all investments that Farmer Mac holds for the purpose of meeting the liquidity reserve requirements to this regulation to be ''highly marketable.'' The proposed rule then articulated four characteristics of a ''highly marketable'' investment, which are: (1) It is easily and immediately convertible to cash with little or no loss in value; (2) low credit and market risk; (3) ease and certainty of valuation; and, (4) except for money market instruments, it is listed on a developed and recognized exchange market and is able to be sold or converted to cash through repurchase agreements in active and sizeable markets.

The Farm Credit Council commented on proposed § 652.40(c). The commenter noted that the description of ''highly marketable'' investments in the proposed rule for Farmer Mac is essentially identical the definition of ''marketable'' investments for FCS banks in § 615.5134(d). The Farm Credit Council expressed concern that ''the choice by FCA to use different terms for these identical concepts could be misunderstood to have significance,'' and it asked us to ''use identical terms when describing identical requirements.'' We agree with the commenter, and, accordingly, final § 652.40(b) requires that Farmer Mac hold ''marketable'' rather than ''highly marketable'' investments to meet its liquidity reserve requirements. Additionally, the text of final § 615.40(b) now refers to investments that are ''readily marketable'' rather than ''highly marketable.'' As a result of these two changes, the title and text of the first paragraph of final § 652.40(b) is virtually identical to § 615.5134(d).

However, the Farm Credit Council deemed this entire provision as too prescriptive and urged us to drop it from the final regulation. The commenter claimed that the definition of ''marketable'' is unworkable and vague because the proposed rule would require that a security must be ''immediately'' convertible to cash with little or no loss in value. According to the Farm Credit Council, the term ''immediately'' has different meanings in different market environments and, therefore, highly liquid Treasury securities would not necessarily sell ''immediately'' during severe market turmoil. We have responded to this comment by substituting ''quickly'' for ''immediately'' in final § 652.40(b)(1). As a result of this change, this provision mirrors § 615.5134(d)(1), which applies the same requirement to FCS banks. As we noted in the preamble to the final rule for Farm Credit banks, the FCA interprets ''quickly'' to mean hours or a few days even during adverse market conditions.[38]

The Farm Credit Council also inquired whether a security that Farmer Mac holds for liquidity must be ''marketable'' at the time of purchase or throughout its life. The commenter expressed uncertainty about whether the proposed rule referred to market value, face value, or some other measurement of value. In response to the commenter's first question, assets held for liquidity must remain marketable during the entire time they are in Farmer Mac's liquidity portfolio. An asset is not marketable for the purposes of this regulation if it does not continuously meet the four criteria in § 652.40(b). Additionally, final § 652.40(b)(1) clearly states that an investment is readily marketable if it can be easily and quickly converted into cash with little or no loss in value. We clarify that the rule generally refers to fair value in response to the Farm Credit Council's second question.

For all these reasons, the FCA disagrees with the Farm Credit Council that the definition of ''marketable'' in final § 652.40(b) is overly prescriptive or imposes unnecessary regulatory burdens on Farmer Mac. Instead, this provision is essential for safety and soundness because it establishes and identifies the basic attributes of assets that Farmer Mac needs for liquidity. Accordingly, we decline the Farm Credit Council's request to drop this provision from the final rule.

4. Section 652.40(c)—Liquidity Reserve, Supplemental Liquidity, and Discounts

Final § 652.40(c) contains the core aspects of our liquidity management regulation. Its provisions: (1) Establish the minimum liquidity reserve requirement for Farmer Mac; (2) identify the investments that compose Farmer Mac's liquidity reserve; (3) address supplemental liquidity; and, (4) specify the discounts for liquid assets held for liquidity. As mentioned above, the FCA has consolidated several provisions of the proposed rule into a single provision that is easier to read and understand. The format of final § 652.40(c) is, in large measure, modeled after the same provision for FCS banks at § 615.5134(b).

Until now, former § 652.35(a) required Farmer Mac to maintain a liquidity reserve equal to at least 60 days of maturing obligations and other borrowings. We proposed to increase the minimum liquidity reserve requirement to 90 days. One commenter supported this change, while the other did not object to it and, therefore, we now adopt it as the first sentence in final § 652.40(c).

The proposed rule would require Farmer Mac to hold supplemental liquid assets to fund obligations and other borrowings maturing after 90 days. We received no comment about supplemental liquidity, and the final rule retains this requirement. However, we condensed three sentences pertaining to supplemental liquidity that were scattered throughout the proposed rule into a single concise statement that is now the second sentence of final § 652.40(c). This change is stylistic rather than substantive.

The FCA proposed to divide the 90-day liquidity reserve into two levels. Under the proposed rule, the first level of the liquidity reserve would provide Farmer Mac with sufficient liquidity to pay it obligations and continue

[37] *See* 78 FR 2323438, *supra* at 23450.

[38] *See* 78 FR 23439 *supra* at 23451.

operations for 30 days if intense economic or financial turmoil impeded market access. Additionally, the proposed rule would have mandated that cash and certain instruments with a final maturity of 3 years or less comprise at least 15 days of the first level of the liquidity reserve. The purpose of this 15-day sublevel is to provide Farmer Mac with enough cash and short-term, highly liquid assets to pay its obligations and fund its operations for 15 consecutive days during a short-term emergency. The second level of the liquidity reserve would enable Farmer Mac to meet its obligations and continue operations for the next 60 days.

Final § 652.40 divides the liquidity reserve into three levels. The first level of the liquidity reserve covers obligations that mature on days 1 through 15. The second level applies to days 16 through 30, while the third level covers days 31 through 90. This revision, which is not substantive, is part of our effort to restructure and reorganize § 652.40 so it is easier to read, understand, and apply. As a result, the final rule more clearly communicates: (1) The exact period of time each level of the liquidity reserve covers; and, (2) which assets Farmer Mac may hold in each level.

The Farm Credit Council commented that the proposed rule is not clear on the actual amount of liquidity that Farmer Mac must hold. We respond that under both the proposed and final rules, the actual dollar amount of liquidity that Farmer Mac must hold is determined by actual amount of obligations maturing in a specific timeframe. Additionally, the LMMP helps determine the tenor of liabilities that Farmer Mac needs in its liquidity portfolio so it has sufficient liquidity to meet its obligations as they fall due.

Changes to the text and format of the final § 652.40(c) clarify that the regulation does not require Farmer Mac to liquidate its most pristine liquid assets, such as cash and short-term United States Treasuries, first during a crisis. Instead, the text above the table in final § 652.40(c) requires Farmer Mac to structure its liquidity reserve so it has sufficient assets of various calibers to meet obligations that mature within each of the specified timeframes. Under the final rule, Farmer Mac must hold a sufficient amount of:

- Level 1 instruments to cover obligations maturing between days 1 and 15;
- Level 1 and 2 instruments to cover obligations maturing between days 16 and 30; and,
- Level 1, 2, and 3 instruments to cover obligations maturing between days 31 and 90.

This change signals that Farmer Mac has discretion to liquidate assets in whatever order best serves its interest as it responds to mounting distress in the markets. We made this revision to the final liquidity regulation for Farm Credit banks in response to two comments we received.[39] This same concept also applies to liquidity management at Farmer Mac, and incorporating it into final § 652.40(c) responds to the Farm Credit Council's request that our regulations treat both branches of the System equally whenever possible.

a. Level 1 of the Liquidity Reserve

The table in proposed § 652.40(c) identified various assets that would comprise Level 1 of Farmer Mac's liquidity reserve. These assets are highly liquid because they are either cash or investments that are high quality, close to their maturity, and marketable. Under the proposed rule, these assets were: (1) Cash; (2) Treasury securities; (3) other Government obligations; (4) Government-sponsored agency securities (excluding mortgage securities) that mature within 60 days; and, (5) Diversified Investment Funds comprised exclusively of Level 1 instruments.

Farmer Mac commented about the assets that we proposed to include in the first level of the liquidity reserve. It requested that we add investments that mature overnight, including overnight repurchase agreements, to the list of investments that qualify for Level 1 of the liquidity reserve. Farmer Mac views overnight investments as one of the most liquid investments available to fund short-term obligations and possibly the most liquid to fund such obligations at a positive spread to the cost of funds.

In response to this comment, we are adding overnight money market investments to the list of highly liquid assets that Farmer Mac may hold in the first 15 days of its liquidity reserve. Overnight money market investments are promptly convertible into cash at their face value and, as a result, these assets have characteristics that are similar to cash.

However, we disagree with Farmer Mac's suggestion that any investment that matures overnight should qualify for Level 1 of the liquidity reserve. A regulatory policy that would automatically include any liquidity investments that mature overnight in Level 1 is simply too broad and not sufficiently cautious. We are aware that valuations, even of impaired assets, migrate to par as they approach maturity. However, given the potential change in liquidity characteristics that various eligible asset classes could take on under stress conditions, we deem such a policy to be imprudent when applied to the entire universe of eligible investments. Not all investments that mature overnight necessarily have the highly liquid characteristics of assets that are suitable for Level 1 of the liquidity reserve. For this reason, we decline Farmer Mac's request that the final rule include every type of investment that matures overnight in Level 1 of the liquidity reserve.

Farmer Mac specifically requested that the final rule allow it to hold overnight repurchase agreements in Level 1 of the liquidity reserve. An overnight repurchase agreement would enable Farmer Mac to obtain cash through a short-term sale of securities, or effectively lend cash through a short-term purchase of securities. Although the cash that Farmer Mac might obtain from the overnight repurchase agreement would certainly qualify as a Level 1 investment, the securities it might obtain through such agreements might not automatically deserve Level 1 designation. Instead, Farmer Mac must judge the liquidity of the securities underlying an overnight repurchase agreement in accordance with the standards and criteria that this regulation establishes for Level 1 investments. The fact that a counterparty is willing to accept certain non-Level 1 securities as part of an overnight repurchase agreement does not mean that they have the liquidity characteristics of a Level 1 investment.

The FCA acknowledges that collateral for repurchase agreements are generally of very good quality. As noted earlier, final § 652.40(b)(4) states that one of the attributes of a ''marketable'' asset is that it ''can be easily sold or converted to cash through repurchase agreements in active and sizable markets without significantly affecting prices.'' During the 2008 crisis, however, many financial institutions discovered that they often could not pledge many types of securities as collateral in the repo markets.

Farmer Mac commented that we should adopt a more flexible approach to the treatment of diversified investment funds (DIFs) in the first level of the liquidity reserve. Under the proposed rule, Farmer Mac could only invest in DIFs comprised exclusively of Level 1 investments. Farmer Mac explained that as a practical matter it would be difficult, if not impossible, to find DIFs that contain only Level 1

[39] *See* 78 FR 23438 *supra* at 23448.

investments. Farmer Mac suggested that DIFs should qualify for Level 1 of the liquidity reserve if they complied with a Securities and Exchange Commission (SEC) regulation, 17 CFR 270.2a–7(c)(2), that establishes portfolio maturity limits for money market funds.[40] According to Farmer Mac, this approach would allow it to maintain its current investment practices toward DIFs while providing sufficient liquidity that would satisfy the FCA's safety and soundness concerns. We agree with the commenter. As revised, final § 652.40(b) allows Farmer Mac to hold DIFs in Level 1 that comply with 17 CFR 270.2a–7(c)(2).

We made several technical and stylistic revisions to the list of Level 1 investments that are found in the table of redesignated § 652.40(c), none of which are substantive. For example, the final rule clarifies that ''cash'' included in Level 1 of the liquidity reserve includes ''cash due from traded but not yet settled debt.'' Additionally, the final rule combined ''Treasury securities'' and ''other Government obligations,'' which appeared in the proposed rule, into ''obligations of the United States.'' The final rule permits Farmer Mac to hold senior debt securities, but not mortgage-backed securities of Government-sponsored agencies in Level 1 of its liquidity reserve. In addition to improving the clarity of the rule, these changes make the substance, text, and structure of the liquidity regulations for Farmer Mac and Farm Credit banks similar.

As revised, final and redesignated § 652.40(c) authorizes Farmer Mac to hold the following investments in Level 1 of its liquidity reserve: (1) Cash, including cash due from traded but not yet settled debt; (2) overnight money market investments; (3) obligations of the United States with a final remaining maturity of 3 years or less; (4) Government-sponsored agency senior debt securities that mature within 60 days, excluding securities of Farmer Mac and other FCS institutions; and, (5) DIFs comprised of Level 1 investments that meet the requirements of 17 CFR 270.2a–7(c)(2). We received no comments on the discounts for Level 1 instruments. Accordingly, we finalize the discounts we proposed but relocated them from the text in proposed § 652.40(e) to the table of final § 652.40(c). The new column heading for discounts in the table specifies that the discounts are to be applied to market values.

b. Level 2 Instruments

As we explained above, the final rule requires Farmer Mac to hold Level 2 instruments that are sufficient to cover obligations that mature between days 16 and 30. Most of the instruments that the final rule consigns to Level 2 were in Level 1 of the proposed rule. Under the final rule, Level 2 investments are: (1) Additional Level 1 investments; (2) obligations of the United States with a final remaining maturity of more than 3 years; (3) mortgage-backed securities that are explicitly backed by the full faith and credit of the United States as to the timely payment of principal and interest; and, (4) DIFs that meet the requirements of 17 CFR 270.2a–7(c)(2), or are composed only of Level 2 instruments. The proposed rule was unclear about whether Ginnie Mae mortgage-backed securities (with a final maturity of more than 3 years) belong in Level 2 of Farmer Mac's liquidity reserve. The final rule clarifies this ambiguity by expressly including mortgage-backed securities that are explicitly backed by the full faith and credit of the United States as Level 2 instruments under the final rule. This is a non-substantive change that makes the liquidity regulations for Farmer Mac and FCS banks consistent on this issue. We received no comments about the discount multiplier for Level 2 instruments. Accordingly, the discount multiplier for Level 2 investments is the same in both the proposed and final rules.

c. Level 3 Instruments

Investments in the liquidity reserve that enable Farmer Mac to pay obligations that mature between days 31 and 90 were designated as Level 2 instrument in the proposed rule but as Level 3 in the final rule. The instruments that comprise this level of the liquidity reserve are the same in both the proposed and final rules. The discount multiplier for instruments in this level is 93 in both the proposed and final rules. We received no comments about the instruments and discounts that we proposed for this level of the liquidity reserve. We adopt our proposal for this provision as a final rule with only minor wording changes that bring into conformity with the liquidity rule for FCS banks.

d. Qualifying Securities Backed by USDA Loans Guarantees

Farmer Mac's comment letter of May 31, 2013, objected to the proposed rule's treatment of qualifying securities backed by Farmer Mac program assets (loans) that are guaranteed by the USDA. Currently, Farmer Mac counts these assets toward its days of liquidity. However, the proposed rule would exclude these qualifying securities from the liquidity reserve but allow Farmer Mac to hold them as supplemental liquidity.

The second comment letter requested that the final regulation allow Farmer Mac to continue to hold the USDA-guaranteed portions of loans it owns in the second and third level of the liquidity reserve. Farmer Mac advised us that these assets are of the highest credit quality because they are fully guaranteed by the USDA and backed by the full faith and credit of the United States. Additionally, Farmer Mac claimed that USDA-guaranteed loans are highly liquid and marketable because they are traded by numerous broker-dealers and banks on an active and sizeable market, and bid-ask spreads are historically narrow. Purchasing and securitizing those portions of loans that are fully guaranteed by the USDA under 7 U.S.C. 1921 *et seq.* is part of Farmer Mac's mandate under title VII of the Act.

Farmer Mac is concerned that it would suffer hardship if the final rule excludes qualifying securities backed by USDA-guaranteed portions of loans it owns from the liquidity reserve. According to Farmer Mac, excluding these assets from the liquidity reserve would force it to ''dramatically upsize its investment portfolio to meet its liquidity requirements'' under the regulation.

In response to Farmer Mac's concerns, the final rule will allow Farmer Mac to hold USDA-guaranteed portions of loans it owns as Farmer Mac II program business in the third level of the liquidity reserve. Our approach in the final rule is consistent with the pre-existing liquidity regulation, which allowed Farmer Mac to hold these assets in its 60-day liquidity reserve. Although these assets are generally high-credit quality, liquid, and marketable, they do not belong in Levels 1 or 2 of the liquidity reserve, which is Farmer Mac's first line of defense in a liquidity crisis. Because securitizing USDA-guaranteed loans is among Farmer Mac's core congressional mandates, these assets are not expected be the first that Farmer Mac liquidates and converts to cash when market access becomes

[40] Under the SEC regulation, a money market fund must maintain a dollar-weighted average portfolio maturity appropriate to its objective of maintaining a stable net asset value per share or price per share provided that the fund will not: (1) Acquire any instrument with a remaining maturity of greater than 397 days; (2) Maintain a dollar-weighted average portfolio maturity that exceeds 60 calendar days; or (3) Maintain a dollar-weighted average portfolio maturity that exceeds 120 calendar days determined without reference to exceptions in the regulation regarding interest rate readjustments.

obstructed. For this reason, the final rule authorizes Farmer Mac to hold these assets in Level 3 of its liquidity reserve. The final rule also applies the same discount for Level 3 investments to the USDA-guaranteed portion of loans that Farmer Mac owns as Farmer Mac II program business.

e. Supplemental Liquidity

We proposed to strengthen liquidity management at Farmer Mac by introducing the new concept of supplemental liquidity into this regulation. Proposed § 652.40(d) would require Farmer Mac to maintain supplemental liquidity that would provide a longer term, stable source of funding beyond the 90-day minimum liquidity reserve. The supplemental liquidity buffer would complement the 90-day minimum liquidity reserve. The primary purpose of the 90-day minimum liquidity reserve is to furnish a sufficient supply of liquid assets that can be liquidated or converted to cash to meet Farmer Mac's short-term funding needs and outlast an immediate crisis. The supplemental liquidity buffer is designed to enable Farmer Mac to manage its contingency funding needs over a much longer time horizon that encompasses a sustained period of financial or market stress. As such, supplemental liquidity would provide Farmer Mac with an additional cushion of liquidity that should enable it to endure prolonged periods of uncertainty concerning funding.

Under the proposed rule, Farmer Mac would hold supplemental liquid assets that are specific and commensurate with the risks it faces in maintaining stable longer term funding. Supplemental liquidity would be comprised of cash and qualified eligible investments listed in § 652.20. As a result, this regulation would permit Farmer Mac to hold other qualified eligible investments, such as corporate debt and asset-backed securities, in its supplemental liquidity buffer that it might not be able to hold in its liquidity reserve.

Other than Farmer Mac's comment about qualified securities backed by USDA-guaranteed loans, which we addressed above, we received no comments about which assets the final rule should allow Farmer Mac to hold as supplemental liquidity. From a regulatory perspective, all qualified eligible investments listed in § 652.20 are suitable as supplemental liquidity, subject to the liquidity policy of Farmer Mac's board. For this reason, we finalize the provision in proposed § 652.40(c) that permits to hold the qualified eligible investments in § 652.20 for supplemental liquidity.

Under proposed § 652.40(e), an 85-percent discount multiplier applies to all assets in the supplemental liquidity reserve that do not otherwise qualify for the discount levels for assets held in Levels 1, 2, or 3 of the liquidity reserve. We proposed the same discount multiplier for assets that Farm Credit banks hold in their supplemental liquidity buffers. In response to a comment from the Farm Credit Council, we adopted a more lenient 90-percent discount multiplier for supplemental liquidity buffers at FCS banks. Although we received no specific comment about the discount multiplier for supplemental liquidity at Farmer Mac, the Farm Credit Council requested that the FCA apply the same regulatory requirements to both types of GSEs in the System whenever feasible. For this reason, we are changing the discount multiplier for assets that Farmer Mac holds for supplemental liquidity from 85 percent to 90 percent.

f. Reservation of Authority

The FCA proposed to strengthen its supervisory and regulatory oversight of liquidity management at both Farmer Mac and Farm Credit banks by adding a new reservation of authority to these regulations. Under proposed § 652.40(f), the FCA would expressly reserve the right to require Farmer Mac to adjust its treatment of any asset in its liquidity reserve so it always maintains liquidity that is sufficient and commensurate with the risk it faces. In response to strong opposition to the reservation of authority in both rulemakings, the FCA decided to omit it from the final liquidity regulations for both Farmer Mac and FCS banks. The FCA has comprehensive supervisory authority over all FCS institutions, including Farmer Mac. As a result, the FCA through its examination and enforcement authorities can compel Farmer Mac to promptly take specified action to correct deficiencies in the liquidity management practices if internal or external conditions so warrant. Because the FCA can effectively exercise its supervisory authority over Farmer Mac during times of economic, financial, or market adversity, inserting a reservation of authority in this regulation is unnecessary.

g. Effective Date of the Final Rule

In its second comment letter of May 31, 2013, Farmer Mac asked the FCA to phase in the final liquidity rule over a 6-month period after it is published in the **Federal Register**. Farmer Mac advised the FCA that once the new regulation becomes effective, it will need to hold a greater amount of liquid assets in its liquidity portfolio than it historically held. As the size of its liquidity reserve expands from 60 to a minimum of 90 days, Farmer Mac's letter indicates that it needs additional time to stock its liquidity portfolio with highly liquid assets of varying maturities so it will be able to consistently comply with the new regulation. The May 31, 2013 comment letter implies that Farmer Mac will be able to fully comply with this new regulation 6 months after the Board adopts it. Accordingly, the FCA accedes to this request. This regulation will be effective 180 days after date of publication in the **Federal Register**, provided either or both Houses of Congress are in session for at least 30 calendar days after publication of this regulation in the **Federal Register**. We will publish a notice of the effective date in the **Federal Register**.

VII. Regulatory Flexibility Act

Farmer Mac has assets and annual income in excess of the amounts that would qualify it as a small entity. Therefore, Farmer Mac is not a ''small entity'' as defined in the Regulatory Flexibility Act. Pursuant to section 605(b) of the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*), the FCA hereby certifies that the final rule will not have a significant economic impact on a substantial number of small entities.

List of Subjects in 12 CFR Part 652

Agriculture, Banks, banking, Capital, Investments, Rural areas.

For the reasons stated in the preamble, part 652 of chapter VI, title 12 of the Code of Federal Regulations is amended as follows:

PART 652—FEDERAL AGRICULTURAL MORTGAGE CORPORATION FUNDING AND FISCAL AFFAIRS

■ 1. The authority citation for part 652 is revised to read as follows:

Authority: Secs. 4.12, 5.9, 5.17, 8.11, 8.31, 8.32, 8.33, 8.34, 8.35, 8.36, 8.37, 8.41 of the Farm Credit Act (12 U.S.C. 2183, 2243, 2252, 2279aa–11, 2279bb, 2279bb–1, 2279bb–2, 2279bb–3, 2279bb–4, 2279bb–5, 2279bb–6, 2279cc); sec. 514 of Pub. L. 102–552, 106 Stat. 4102; sec. 118 of Pub. L. 104–105, 110 Stat. 168; sec. 939A of Pub. L. 11–203, 124 Stat. 1326, 1887 (15 U.S.C. 78o–7 note) (July 21, 2010).

■ 2. Revise § 652.5 to read as follows:

§ 652.5 Definitions.

Cash means cash balances held at Federal Reserve Banks, proceeds from traded-but-not-yet-settled debt, and deposit accounts at Federal Deposit Insurance Corporation-insured banks.

Contingency Funding Plan (CFP) is described in § 652.35(d)(2).

Liability Maturity Management Plan (LMMP) is described in § 652.35(d)(2)(iv).

Liquidity reserve is described in § 652.40.

■ 3. Revise § 652.35 to read as follows:

§ 652.35 Liquidity management.

(a) *Liquidity policy—board responsibilities.* Farmer Mac's board of directors must adopt a liquidity policy, which may be integrated into a comprehensive asset-liability management or enterprise-wide risk management policy. The risk tolerance embodied in the liquidity policy must be consistent with the investment management policies required by § 652.10 of this subpart. The board must ensure that management uses adequate internal controls to ensure compliance with its liquidity policy. At least annually, the board of directors or a designated committee of the board must review the sufficiency of the liquidity policy. The board of directors must approve any changes to the policy. You must provide a copy of the revised liquidity policy to the OSMO within 10 business days of adoption.

(b) *Policy content.* Your liquidity policy must contain at a minimum the following:

(1) The purpose and objectives of liquidity reserves;

(2) Diversification requirements for your liquidity reserve portfolio;

(3) The minimum and target (or optimum) amounts of liquidity that the board has established for Farmer Mac, expressed in days of maturing obligations;

(4) The maximum amount of non-program investments that can be held for meeting Farmer Mac's liquidity needs, expressed as a percentage of program assets and program obligations;

(5) Exception parameters and approvals needed with respect to the liquidity reserve;

(6) Delegations of authority pertaining to the liquidity reserve;

(7) Reporting requirements which must comply with the requirements under paragraph (c) of this section;

(c) *Reporting requirements.* (1) *Board reporting.* (i) *Periodic.* At least quarterly, Farmer Mac's management must report to Farmer Mac's board of directors or a designated committee of the board describing, at a minimum, the status of Farmer Mac's compliance with board policy and the performance of the liquidity reserve portfolio.

(ii) *Special.* Management must report any deviation from Farmer Mac's liquidity policy, or failure to meet the board's liquidity targets to the board before the end of the quarter if such deviation or failure has the potential to cause material loss.

(2) *OSMO reporting.* Farmer Mac must report, in writing, to the OSMO no later than the next business day following the discovery of any breach of the minimum liquidity reserve requirement in § 652.40 of this subpart.

(d) *Liability maturity management plan.* Farmer Mac must have a liability maturity management plan (LMMP) that its board of directors reviews and approves at least once each year. The LMMP must establish a funding strategy that provides for effective diversification of the sources and tenors of funding, and considers Farmer Mac's risk profile and current market conditions. The LMMP must include targets of acceptable ranges of the proportion of debt maturing within specific time periods.

(e) *Contingency funding plan.* (1) *General.* Farmer Mac must have a CFP to ensure sources of liquidity are sufficient to fund normal operations under a variety of stress events. Such stress events include, but are not limited to market disruptions, rapid increase in contractually required loan purchases, unexpected requirements to fund commitments or revolving lines of credit or to fulfill guarantee obligations, difficulties in renewing or replacing funding with desired terms and structures, requirements to pledge collateral with counterparties, and reduced market access.

(2) *CFP requirements.* Farmer Mac must maintain an adequate level of unencumbered and marketable assets (as defined in § 652.40(a) and (b) of this subpart) in its liquidity reserve that can be converted into cash to meet its net liquidity needs for 30 days based on estimated cash inflows and outflows under an acute stress scenario. The board of directors must review and approve the CFP at least once each year and must make adjustments to reflect changes in the results of stress tests, Farmer Mac's risk profile, and market conditions.

(3) The CFP must:

(i) Be customized to the financial condition and liquidity risk profile of Farmer Mac, the board's liquidity risk tolerance, and Farmer Mac's business model;

(ii) Identify funding alternatives that can be implemented as access to funding is impeded;

(iii) Establish a process for managing events that imperil Farmer Mac's liquidity. The process must assign appropriate personnel and executable action plans to implement the CFP;

(iv) Require periodic stress testing that analyzes the possible impacts on Farmer Mac's cash flows, liquidity position, profitability, and solvency for a wide variety of stress scenarios.

■ 4. Add § 652.40 to read as follows:

§ 652.40 Liquidity reserve requirement and supplemental liquidity.

(a) *Unencumbered.* All investments that Farmer Mac holds in its liquidity reserve and as supplemental liquidity in accordance with this section must be unencumbered. For the purposes of this section, an investment is unencumbered if it is free of lien, and it is not explicitly or implicitly pledged to secure, collateralize, or enhance the credit of any transaction. Additionally, an unencumbered investment held in the liquidity reserve cannot be used as a hedge against interest rate risk if liquidation of that particular investment would expose Farmer Mac to a material risk of loss.

(b) *Marketable.* All investments that Farmer Mac holds in its liquidity reserve in accordance with this section must be readily marketable. For purposes of this section, an investment is readily marketable if it:

(1) Can be easily and quickly converted into cash with little or no loss in value;

(2) Exhibits low credit and market risk;

(3) Has ease and certainty of valuation; and,

(4) Except for money market instruments, can be easily sold or converted to cash through repurchase agreements in active and sizable markets without significantly affecting prices.

(c) *Liquidity reserve requirement, supplemental liquidity, and discounts.* Farmer Mac must maintain at all times a liquidity reserve sufficient to fund at least 90 days of the principal portion of maturing obligations and other borrowings. Farmer Mac must also hold supplemental liquid assets sufficient to fund obligations and other borrowings maturing after 90 calendar days to meet board liquidity policy in accordance with § 652.35. At a minimum, Farmer Mac must hold instruments in the liquidity reserve, and as supplemental liquidity, that are listed and discounted in accordance with the following table, and are sufficient to cover:

(1) Days 1 through 15 only with Level 1 instruments;

(2) Days 16 through 30 only with Level 1 and Level 2 instruments; and,

(3) Days 31 through 90 with Level 1, Level 2, and Level 3 instruments.

TABLE TO § 652.40(C)

Liquidity level	Instruments	Discount (multiply market value by)
Level 1	• Cash, including cash due from traded but not yet settled debt	100 percent.
	• Overnight money market instruments, including repurchase agreements secured exclusively by Level 1 investments.	100 percent.
	• Obligations of the United States with a final remaining maturity of 3 years or less.	97 percent.
	• Government-sponsored agency senior debt securities that mature within 60 days, excluding securities issued by the Farm Credit System.	95 percent.
	• Diversified investment funds comprised of cash, overnight money market funds, obligations of the United States, and Government-sponsored agency senior debt securities *provided that* such diversified investment funds meet the requirements of 17 CFR 270.2a–7(c)(2).	95 percent.
Level 2	• Additional Level 1 investments	Discount for each Level 1 investment applies.
	• Obligations of the United States with a final remaining maturity of more than 3 years.	97 percent.
	• Mortgage-backed securities that are explicitly backed by the full faith and credit of the United States as to the timely payment of principal and interest.	95 percent.
	• Diversified investment funds that qualify for Level 1 or are comprised exclusively of Level 2 instruments.	95 percent.
Level 3	• Additional Level 1 or Level 2 investments	Discount for each Level 1 or Level 2 investment applies.
	• Government-sponsored agency senior debt securities with maturities exceeding 60 days, excluding senior debt securities of the Farm Credit System.	93 percent for all instruments in Level 3.
	• Government-sponsored agency mortgage-backed securities that the timely repayment of principal and interest are not explicitly backed by the full faith and credit of the United States, excluding Farmer Mac mortgage-backed securities.	
	• Money market instruments maturing within 90 days.	
	• Diversified investment funds comprised exclusively of levels 1, 2, and 3 instruments.	
	• Qualifying securities backed by Farmer Mac program assets (loans) guaranteed by the United States Department of Agriculture (excluding the portion that would be necessary to satisfy obligations to creditors and equity holders in Farmer Mac II LLC).	
Supplemental Liquidity	• Eligible investments under § 652.20	90 percent except discounts for Level 1, 2 or 3 investments apply to such investments held as supplemental liquidity.

Dated: October 25, 2013.

Mary Alice Donner,

Acting Secretary, Farm Credit Administration Board.

[FR Doc. 2013–25918 Filed 10–31–13; 8:45 am]

BILLING CODE 6705–01–P

DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration

14 CFR Parts 34 and 45

[Docket No.: FAA–2012–1333; Amendment No. 34–5A]

RIN 2120–AK15

Exhaust Emission Standards for New Aircraft Turbine Engines and Identification Plate for Aircraft Engines

Correction

In rule document 2013–24712, appearing on pages 63015–63017 in the issue of Wednesday, October 23, 2013, make the following correction:

§ 34.23 [Corrected]

■ On page 63017, in the Table titled ''Tier 6 Oxides of Nitrogen Emission Standards for Subsonic Engines'', in the third column, in the last row, the entry ''rO > 26.7'' is corrected to read ''rO ≥ 26.7''.

[FR Doc. C1–2013–24712 Filed 10–31–13; 8:45 am]

BILLING CODE 4910–13–P

DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration

14 CFR Part 71

[Docket No. FAA–2013–0533; Airspace Docket No. 13–ANM–19]

Establishment of Class E Airspace; Rome, OR

AGENCY: Federal Aviation Administration (FAA), DOT.

ACTION: Final rule.

SUMMARY: This action establishes Class E airspace at the Rome VHF Omni-Directional Radio Range/Distance Measuring Equipment (VOR/DME)