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FARM CREDIT ADMINISTRATION

12 CFR Parts 652

RIN 3052–AC86

Organization; Funding and Fiscal Affairs, Loan Policies and Operations, and Funding Operations; Farmer Mac Investment Eligibility

AGENCY: Farm Credit Administration.

ACTION: Final rule.

SUMMARY: The Farm Credit Administration (FCA, we, or our) finalizes amendments to our regulations governing the eligibility of non-program investments held by the Federal Agricultural Mortgage Corporation (Farmer Mac). We are revising these regulations in compliance with section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act or DFA) by removing references to, and requirements relating to, credit ratings.

DATES:

Effective Date: This regulation shall become effective no earlier than 30 days after publication in the **Federal Register** during which either or both Houses of Congress are in session. The FCA will publish a notice of the effective date in the **Federal Register**.

Compliance Date: All provisions of this regulation require compliance by January 1, 2019 or the effective date, whichever is later.

FOR FURTHER INFORMATION CONTACT: Joseph Connor, Associate Director for Policy and Analysis, Office of Secondary Market Oversight, (703) 883–4364, TTY (703) 883–4056, *connorj@fca.gov*; or Laura McFarland, Senior Counsel, Office of General Counsel, (703) 883–4020, TTY (703) 883–4056, *mcfarlandl@fca.gov.*

SUPPLEMENTARY INFORMATION:

I. Objective

The purpose of this final rule is to replace references to credit rating agencies with other appropriate standards used to determine the creditworthiness of investments and to revise obligor limits in our existing investment regulations applicable to Farmer Mac.

II. Background

Farmer Mac is a federally chartered instrumentality that is an institution of the Farm Credit System (System) and a Government-sponsored enterprise (GSE). Farmer Mac was established and chartered by Congress to create a secondary market for agricultural real estate mortgage loans, rural housing mortgage loans, rural utility cooperative loans, and the United States Department of Agriculture (USDA) guaranteed portions of farm and rural development loans. Title VIII of the Farm Credit Act of 1971, as amended, (Act) [1] governs Farmer Mac. Farmer Mac is regulated by FCA through its Office of Secondary Market Oversight (OSMO).

On July 21, 2010, the Dodd-Frank Act was enacted, and section 939A of the Dodd-Frank Act requires Federal agencies to review all regulatory references to nationally recognized statistical ratings organizations (NRSRO or credit rating agency) and replace those references with other appropriate standards for determining creditworthiness.[2] The Dodd-Frank Act further provides that, to the extent feasible, agencies should adopt a uniform standard of creditworthiness for use in regulations, taking into account the entities regulated and the purposes for which such regulated entities would rely on the creditworthiness standard.

The existing rules on non-program investments for Farmer Mac are contained in part 652, subpart A, and rely, in part, on NRSRO credit ratings to characterize relative credit quality of various instruments. On June 16, 2011, we issued an Advance Notice of Proposed Rulemaking (ANPRM) soliciting comments on suitable alternatives to NRSRO credit ratings.[3] On November 18, 2011, as part of another rulemaking, we again requested comment on potential sources of market-derived information that could be used to replace NRSRO credit ratings in part 652 of our rules.[4] In compliance with provisions in the Dodd-Frank Act directing agencies, to the extent feasible, to adopt a uniform standard of creditworthiness among regulated entities, we also considered the creditworthiness standards FCA proposed in a separate rulemaking for Farm Credit banks and associations.[5] Using perspective gained through these processes, on February 23, 2016, we issued a proposed rule, whose comment period ended April 25, 2016.[6] The only comments received were from the Farm Credit Council (Council) on behalf of its membership and Farmer Mac. Their comments are discussed herein at the relevant sections below.

III. Section-by-Section Discussion

The final rule revises portfolio diversification requirements and the credit quality standards for eligible non-program investments that Farmer Mac may hold by replacing the reliance on NRSRO credit ratings and clarifying terminology. All changes are finalized as proposed unless otherwise indicated.

A. Definitions [Existing § 652.5]

1. Removed Terms

In § 652.5, we finalize proposed removal of the following terms and their related definitions because they are either obsolete or do not require a separate definition:

- Contingency Funding Plan (CFP),
- Eurodollar time deposit,
- Final maturity,
- General obligations,
- Liability Maturity Management Plan (LMMP),
- Liquid investments,
- Liquidity reserve,
- Nationally Recognized Statistical Rating Organization (NRSRO),
- Revenue bond, and
- Weighted average life (WAL).

We also remove these terms from where they appear in § 652.20.

2. New and Changed Terms

We finalize proposed changes to three existing terms and their definitions. First, the term ''Government-sponsored

[1] Public Law 92–181, 85 Stat. 583, 12 U.S.C. 2001 *et seq.*

[2] Public Law 111–203, 124 Stat. 1376, (H.R. 4173), July 21, 2010.

[3] 76 FR 35138, June 16, 2011.

[4] *Refer to* Proposed rule, ''Federal Agricultural Mortgage Corporation Funding and Fiscal Affairs; Farmer Mac Investments and Liquidity Management'' (76 FR 71798, Nov. 18, 2011).

[5] 79 FR 43301, July 25, 2014.

[6] 81 FR 8860, Feb. 23, 2016.

agency'' is replaced with ''Government-sponsored enterprise (GSE)'', defining a GSE as an entity established or chartered by the U.S. Government to serve public purposes specified by the U.S. Congress but whose debt obligations are not explicitly guaranteed by the full faith and credit of the U.S. Government. Second, the term ''Government agency'' is replaced with ''U.S. Government agency,'' defined as an instrumentality of the United States Government whose obligations are fully guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. Government. Finally, the term ''mortgage securities'' is replaced with ''mortgage-backed securities (MBS),'' but uses the existing definition for ''mortgage securities.'' We finalize a conforming change to the definition of ''asset-backed securities'' to substitute the term ''mortgage securities'' for ''mortgage-backed securities (MBS)'' within the definition of ''asset-backed securities''.

We finalize as proposed adding a new term to § 652.5: ''Diversified investment fund''. The final rule defines a ''diversified investment fund'' (DIF) as an investment company registered under section 8 of the Investment Company Act of 1940, 15 U.S.C. 80a–8. We had proposed, but are not finalizing, adding a definition for ''obligor'' and explain why in the following section.

3. Defining ''Obligor''

We proposed adding a new definition for ''obligor'', defining it as an issuer, guarantor, or other person or entity who has an obligation to pay a debt, including interest due, by a specified date or when payment is demanded. The existing regulation does not contain a definition for ''obligor'', although the term is used in part 652. We proposed a definition to remove any questions on the terminology, but upon further consideration have determined the proposed definition adds little value as it reflects the commonly understood meaning of ''obligor''. As such, we are not adding it to our rules.

B. Concentration Risk [New § 652.10(c)(5)]

We add a new paragraph (c)(5) to § 652.10, addressing diversification and investment concentration limits. As discussed below, we make changes to what was proposed when discussing obligor limits.

1. Concentration Limit [Existing § 652.20(d)(1); New § 652.10(c)(5)]

We finalize as proposed moving the investment concentration limit provisions from § 652.20(d)(1) to new § 652.10(c)(5).

a. Obligor Limit Level

We final as proposed reducing the obligor limit from 25 percent to 10 percent. We place a 10-percent regulatory capital limit on Farmer Mac's investment exposure to investments issued by any single entity, issuer, or obligor as we believe this limit enhances Farmer Mac's long-term safety and soundness by ensuring that if any single entity, issuer, or obligor were to default, only a modest portion of capital would be at risk.

The Council requested FCA consider lowering the proposed obligor limit to 5 percent. The Council commented that a 10-percent limit would be appropriate for well-capitalized financial institutions meeting Basel III capital requirements, but contends that Farmer Mac's capitalization is based on an internal economic capital model which the Council believes may not be consistent with Basel III requirements. Farmer Mac measures capital adequacy using an approach that is consistent with broadly accepted banking practices and standards. Further, OSMO conducts comprehensive oversight of all aspects of Farmer Mac's operations, including capital adequacy, utilizing detailed and robust information, a variety of metrics, and under stress testing. Therefore, we do not share the Council's views on Farmer Mac's capitalization, which views may be based on a more limited perspective.

Farmer Mac requested the obligor limit remain at 25 percent, remarking that the limit alone would not necessarily enhance Farmer Mac's long-term safety and soundness due to its internal risk management procedures and board-established guidelines. Farmer Mac contended that the limit could instead unintentionally impede management's ability to manage the portfolio under certain market conditions. We are finalizing a 10-percent single obligor limit as we believe the lower limit adds a level of safety against both credit loss as well as variation in liquidity specifically tied to a single issuer or obligor. In deciding where to set the investment concentration threshold, we considered, among other things, the historical relationship between Farmer Mac's capital surplus over the statutory minimum and the dollar amount that equates to 10 percent of regulatory capital.

b. Obligor Limit Applicability

Farmer Mac requested that inclusion of guarantors in the definition of ''obligor'' be made only to the extent that Farmer Mac's investment decision was based on the ability of the guarantor to fulfill its obligation under the guarantee. Farmer Mac offered as an example its purchases of municipal bonds where its analysis of credit quality might ignore a third-party guarantee in some cases. We understand that when making an investment decision, the weight given a guarantee backing the issuance will vary, but that does not alter the guarantor's financial obligations for the issuance and we believe all credit enhancement features of an investment should be considered.

The existing obligor limit explains that it applies to ''. . . eligible investments issued by any single entity, issuer, or obligor.'' We proposed clarifying this phrase by revising it to read ''. . . allowable investments in any one obligor . . .''. In offering this change, we did not intend to change the meaning of whom is covered by the obligor limit. After reviewing comments made, we believe the proposed language for new § 652.10(c)(5)(i), if finalized, may be misread as altering the applicability of the obligor limit. As such, we finalize the first sentence of new § 652.10(c)(5)(i) using existing rule text, so it reads ''You may not invest more than 10 percent of your Regulatory Capital in allowable investments issued by any single entity, issuer, or obligor.''

We remind Farmer Mac that existing § 652.10(b) requires its investment policies to address how Farmer Mac will manage the potential risk of one guarantor having financial commitments to several issuers. Concentration limits are directed at placing safeguards around the risk incurred from having too many investments tied to the same financial source, including situations where several issuers share the same guarantor. Under existing § 652.10(b), Farmer Mac is required to include limits on counterparty risks and risk diversification standards within its investment policies. As such, Farmer Mac's investment policies are expected to address the concentration risk that arises when a single guarantor is tied to too many issuers in whom Farmer Mac invests.

2. Asset Class Limits: GSE-Issued Mortgage-Backed Securities Limit [Existing § 652.20(a)(6); New § 652.10(c)(5)]

We proposed removing asset class limits for all but one of the existing nine named asset classes: The 50-percent exposure limit for GSE-issued investments. Farmer Mac asked us to eliminate all asset class limits, including the one for GSE securities.

Farmer Mac suggested we allow it to set all its own concentration limits for all asset classes. In response to this comment, we remove the 50-percent exposure limit provision for GSE-issued investments from new § 652.10(c)(5). As a result, the final rule removes all nine of the regulatory asset class limits currently in existing § 652.20(a)(1) through (a)(9), as well as removes the related investment table at existing § 652.20(a). We believe the combined effect of our regulations governing investment management (§ 652.10), liquidity (§ 652.40), and those governing the overall regulatory limit on non-program investments (§ 652.15) create a strong and appropriate regulatory structure that incentivizes Farmer Mac to create a well-diversified and liquid investment portfolio comprised primarily of investments in either Government-backed or, to a lesser extent, GSE debt instruments.

Section 652.10 governing investment management outlines the responsibilities of the Farmer Mac board of directors for establishing appropriate policies and internal controls to prevent loss, and establishes a substantial set of requirements to foster appropriate investment purchase analysis, risk diversification and investment management. Further, as one commenter pointed out, existing § 652.10(c)(1)(i) already requires Farmer Mac to establish within its investment policy concentration limits for ''asset classes or obligations with similar characteristics.'' This requirement includes concentrations in GSE-issued mortgage-backed securities. We expect Farmer Mac to at least annually review its investment strategy, objectives and policy limits, making adjustments based on market conditions and its current risk profile and risk-bearing capacity.

C. Non-Program Investments [Existing §§ 652.20 and 652.25; New § 652.23]

All proposed changes to §§ 652.20, 620.23, and 652.25 are finalized as proposed except one technical correction. In § 652.20(a)(7) we mistakenly included a cross-citation to § 652.20(b)(4), when paragraph (b) only has three paragraphs. We are correcting the cross citation to only reference paragraphs (b)(1), (b)(2), and (b)(3).

We discuss the comments received on eligible non-program investments here.

1. Criteria of Eligible Non-Program Investments [§ 652.20(a)]

We finalize replacing the ''non-program investment eligibility criteria table'' in § 652.20(a) with general categories of eligible non-program investments to eliminate references to NRSRO credit ratings within § 620.20.

The Council asked that the rule specifically exclude from § 652.20(a) those Farmer Mac program securities backed by USDA guarantees. The Council referenced paragraphs (a)(4) and (a)(5) on GSE-issued ABS and MBS, asking that Farmer Mac securities be excluded. This rule provision identifies GSE, ABS, and MBS securities as eligible non-program investments. Securitizing USDA-guaranteed loans is among Farmer Mac's statutory authorities and we believe the assets are generally of high-credit quality and marketable to a sufficient degree to justify their inclusion in Level 3. As such, we make no change as requested by the commenter, but will take this suggestion into consideration in future rulemakings.

Farmer Mac commented upon preamble discussion in the proposed rule regarding the liquid nature of private placements, explaining its belief that private placements offer similar liquidity as securities acquired in the public markets. Farmer Mac asked that we allow using privately placed securities for liquidity purposes. In Section III.1.a. of the preamble to the proposed rule discussing § 652.20(a), we explained that ''eligible non-program investments'' may include private placements and therefore those private placements could be used for liquidity and other purposes to the extent allowed in § 652.15.[7] In the preamble discussion of that section we noted that we did not consider private placements to be very liquid. Farmer Mac objected to this remark, considering it to be a prohibition against using any private placements for liquidity purposes. The rule does not prohibit the use of private placements for liquidity purposes, nor does it specifically authorize them for such. If a private placement satisfies all non-program eligibility requirements under § 652.20, then it may be used for liquidity to the same extent as other eligible non-program investments, once approved. This means when seeking FCA approval under new § 652.23 for ''other'' non-program investments, Farmer Mac will need to specify if it intends on using the private placement investment for liquidity reserve purposes. If so, the investment request should include documentation that Farmer Mac has conducted a due diligence review and concluded the security meets the standard for marketability found at § 652.40(b), including the requirement that it can be easily sold (or converted to cash through repurchase agreements) in active and sizable markets. Thereafter, new § 652.23(c) provides that approved ''other'' non-program investments are treated under subpart A of part 652 the same as eligible non-program investments, unless our conditions of approval state otherwise.

Farmer Mac also commented that any higher liquidity premium built in the yield of a privately placed security should offset its lower liquidity when traded. It is our view that a higher liquidity premium does not substantially increase the liquidity of an instrument, but rather serves to compensate the investor for accepting the instrument's lower level of liquidity. Thus, a higher liquidity premium alone would not be enough to satisfy requirements for using the investment to fund the liquidity reserve.

2. Quality of Eligible Non-Program Investments [§ 652.20(b)]

We proposed in § 652.20(b) a Farmer Mac investment standard where the investment obligors would have to have a ''strong capacity'' to meet financial commitments and the risk of default was ''very low.'' We are finalizing the rule to require that at least one obligor of an investment have ''very strong capacity'' to meet financial commitments, with a ''very low'' risk of default.

Both comments to our proposed rule effectively asked us to reassess whether the provision on the quality of eligible investments was similar in its expectations to that of other regulators. Farmer Mac commented that the creditworthiness standards in proposed § 652.20(b) appeared to be stricter than those implemented by the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC). Farmer Mac explained that the OCC and the FDIC refer to the ''adequate capacity'' of the issuer to meet its financial commitments and ''low'' risk of default by the obligor. Farmer Mac requested that we reconsider using a ''strong capacity'' to meet financial commitments and replace it with ''adequate capacity''. The FCC made a general remark that our Farmer Mac investment regulations should be no less stringent than those imposed on Farm Credit banks and associations.

In both the proposed rule and this final rulemaking, we considered the approaches used by OCC, FDIC, Federal Housing Finance Agency (FHFA), Federal Reserve Board (FRB), and the National Credit Union Administration

[7] *See* 81 FR 8860, 8864 (Feb. 23, 2016).

(NCUA).[8] We gave particular attention to the OCC, FDIC and FRB joint agreement [9] revising the definition of ''investment grade.'' These regulators agreed to replace their use of NRSRO ratings with a standard that considers an issuer's creditworthiness and risk of default. This involved defining investment grade securities as follows:

> A security is investment grade if the issuer of the security has an adequate capacity to meet financial commitments for the life of the asset. An issuer has adequate capacity to meet its financial commitments if the risk of default is low, and the full and timely repayment of principal and interest is expected.

As a result, the definition of ''investment grade'' effectively sets an issuer's financial capacity (and risk of default) as the uniform replacement standard for NRSRO ratings at commercial banks.

Dodd-Frank instructed each financial regulatory agency to establish uniform standards of creditworthiness to the extent feasible and to consider both the regulated entities covered by the new standards and the purposes for which the creditworthiness standards will be used. In compliance with this requirement, FCA proposed adopting the standard used by other regulators (*i.e.,* an issuer's financial capacity and the risk of default), but adapted the financial capacity and default risk levels to reflect Farmer Mac's secondary market activities and its status as a GSE. As a GSE with a specific Congressional mandate, we believe Farmer Mac should maintain investments in its liquidity portfolio that are of a higher grade than required at commercial banks with the goal of mitigating default risks. Therefore, FCA declines to set the regulatory investment creditworthiness standard for Farmer Mac to an ''adequate'' level.

However, we recognize that FCA recently issued a final rule governing the investment activities of Farm Credit banks and associations [10] whereby, FCA determined eligible investments were those where at least one of the obligors has ''very strong capacity'' to meet financial commitments. Although the investment authority of Farm Credit banks differs from Farmer Mac's investment authority, both authorities are primarily used for liquidity. Further, we recognize the subjective challenges involved in differentiating on examination between an issuer with a ''strong'' or ''very strong'' capacity to meet financial commitments. To avoid confusion, as well as to recognize the shared primary liquidity purpose of investment authorities at both the Farm Credit banks and Farmer Mac, we have adapted the financial capacity level to reflect those used by Farm Credit banks. Thus, we finalize a requirement that at least one of the investment obligors possess a ''very strong capacity'' to meet financial commitments.

We note that this modification also agrees in part with Farmer Mac's request for closer alignment with the other FRBs standard (in that we are only requiring a ''very strong capacity'' of at least one of the investment obligors, whereas in the proposed rule we required all obligors to meet the ''strong capacity'' standard). Also, we emphasize this language is not intended to change the quality or range of investments Farmer Mac is currently authorized to purchase and hold. Our intent is only to remove references to NRSRO ratings and reduce potential over reliance on NRSRO ratings in assessing an investment's creditworthiness and suitability for inclusion in investment portfolio. Meaning, Farmer Mac will continue to perform due diligence on its investments, adapting those reviews to the new risk assessment and classification standards. As noted in the investment management section of this subpart, § 652.10, and its associated preamble explanation, the depth of due diligence should be a function of the security's credit quality, the complexity of the structure, and the size of the investment.[11] The evaluation of the structure's complexity should include the contraction risk associated with investments purchased at a premium to par. We expect Farmer Mac to perform credit reviews both pre- and post-purchase as appropriate for each investment. These reviews should monitor performance at the portfolio and sector level and be periodically updated. In addition, we expect Farmer Mac to evaluate the issuer's capacity to meet financial commitments for the projected life of the asset or exposure. In doing so, we expect Farmer Mac to understand each security's structure and how the security may perform under adverse economic conditions.

As a technical change, we finalize a correction to § 652.20(b), whereby proposed (b)(1) language was inadvertently repeated in proposed (b)(2). We consolidate the repetitive language into (b)(1), removing it from paragraph (b)(2). In making this clarification, we make no change in the meaning of § 652.20(b)(2).

3. Other Non-Program Investments [New § 652.23]

We finalize moving from § 652.20(e) to new § 652.23 the provisions on seeking FCA approval for those non-program investments not identified in the rule. We also finalize as proposed the amendments to this provision. We received no comments on these changes.

4. Ineligible Non-Program Investments [§ 652.25]

We finalize as proposed the amendments to § 652.25, which address ineligible investment activities. We received no comments on these changes. As part of the changes, we will no longer require the separate quarterly report on investments that lose their eligibility after purchase. We make this reporting change to alleviate redundancy as Farmer Mac already provides OSMO routine quarterly reports on the performance and risk on all of its liquidity investment portfolio, which we consider a sound practice. We believe the investment activity report covering all investment activities is the more valuable of the two reports for our oversight and should be continued.

D. Reservation of FCA Authority [New § 652.27]

We received no comments on the proposed new § 652.27. We finalize moving from § 652.25(d) to new § 652.27 provisions addressing FCA-required investment divestitures.

E. Liquidity Reserve Requirements [Table to § 652.40(c)]

We finalize the proposed changes to the Table at § 652.40(c), including incorporating new terminology and clarifying certain MBS requirements.

The Council asked us to explain why the Table at § 652.40(c) includes GSE-issued senior debt with maturities less than 60 days as a Level 1 asset and greater than 60 days as a Level 3 asset but specifically excludes the debt of System banks and associations. The Council commented that treating the debt of Farm Credit banks and associations differently from that of Farmer Mac has no stated policy basis and asked that all Farmer Mac program securities held on balance sheet be excluded from the Level 1 category. At a minimum, the Table at § 652.40(c) should be clear that Farmer Mac securities are separate from the debt of Farm Credit banks and associations.

Debt issued by Farmer Mac does not share liability with the debt of Farm

[8] *See, for example,* OCC final rulemaking at 77 FR 35253 (June 13, 2012) and NCUA final rulemaking at 77 FR 74103 (Dec. 13, 2012).

[9] ''Uniform Agreement on the Classification and appraisal of Securities held by Depository Institutions (Agreement)'', dated Oct. 29, 2013.

[10] 83 FR 27486, June 12, 2018.

[11] 77 FR 66375, Nov. 5, 2012.

Credit banks and associations.[12] Farmer Mac is organized as an investor-owned corporation, not a member-owned cooperative, and the Farm Credit System Insurance Corporation only insures the debt of Farm Credit banks. As to the Table at § 652.40(c), debt issued by Farm Credit banks is excluded because we believe it is likely to be highly correlated with Farmer Mac program securities. Meaning, adverse economic and financial conditions affecting Farm Credit banks and associations will likely affect Farmer Mac securities at the same time. Therefore, limiting Farmer Mac's ability to amplify agricultural banking risk through its liquidity portfolio is an appropriate safety and soundness measure.

The Council also commented that the rule permits Farmer Mac to count repurchase agreements backed by Level 1 assets of the liquidity reserve, stating it believes these items would be more appropriate at Level 3. The Council added that these items may not be as liquid as necessary for Level 1 since significant time is required to convert these assets. The Council added that, for consistency, if repurchase agreements are included as Level 1 assets for Farmer Mac, FCA should modify its regulations for the Farm Credit banks and associations to classify the assets at the same level as Farmer Mac.

We decline the requests of the Council. Repurchase agreements are justifiably classified as Level 1 liquidity instruments because their overnight maturity, combined with their Level 1 collateral, make the risk of loss exceedingly small under adverse market conditions. Moreover, FCA regulations for Farm Credit banks and associations currently include overnight repurchase agreements in the category of money market instruments.[13] Meaning, Farm Credit banks and associations have the same ability to include such investments in Level 1 under the existing regulations.

IV. Regulatory Flexibility Act

Pursuant to section 605(b) of the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*), FCA hereby certifies that this final rule will not have a significant economic impact on a substantial number of small entities. 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.

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. 111–203, 124 Stat. 1326, 1887 (15 U.S.C. 78o–7 note) (July 21, 2010).

■ 2. Amend § 652.5 by:

■ a. Removing the definitions for ''Contingency Funding Plan (CFP)'', ''Eurodollar time deposit'', ''Final maturity'', ''General obligations'', ''Government agency'', ''Government-sponsored agency'', ''Liability Maturity Management Plan (LMMP)'', ''Liquid investments'', ''Liquidity reserve'', ''Mortgage securities'', ''Nationally recognized statistical rating organization (NRSRO)'', ''Revenue bond'', and ''Weighted average life (WAL)'';

■ b. Revising the last sentence of the definition for ''Asset-backed securities (ABS)''; and

■ c. Adding alphabetically the definitions of Diversified investment fund, Government-sponsored enterprise, Mortgage-backed securities, and U.S. Government agency to read as follows:

§ 652.5 Definitions.

* * * * *

Asset-backed securities (ABS) * * * For the purpose of this subpart, ABS exclude mortgage-backed securities that are defined below.

* * * * *

Diversified investment fund (DIF) means an investment company registered under section 8 of the Investment Company Act of 1940.

* * * * *

Government-sponsored enterprise (GSE) means an entity established or chartered by the United States Government to serve public purposes specified by the United States Congress but whose debt obligations are not explicitly guaranteed by the full faith and credit of the United States Government.

* * * * *

Mortgage-backed securities (MBS) means securities that are either:

(1) Pass-through securities or participation certificates that represent ownership of a fractional undivided interest in a specified pool of residential (excluding home equity loans), multifamily or commercial mortgages, or

(2) A multiclass security (including collateralized mortgage obligations and real estate mortgage investment conduits) that is backed by a pool of residential, multifamily or commercial real estate mortgages, pass through MBS, or other multiclass MBS.

(3) This definition does not include agricultural mortgage-backed securities guaranteed by Farmer Mac itself.

* * * * *

U.S. Government agency means an instrumentality of the U.S. Government whose obligations are fully guaranteed as to the payment of principal and interest by the full faith and credit of the U.S. Government.

■ 3. Amend § 652.10 by:

■ a. Removing the word ''four'' in the last sentence of the paragraph (c) introductory text;

■ b. Removing the phrase ''geographical areas'' in paragraph (c)(1)(i); and

■ c. Adding paragraph (c)(5) to read as follows:

§ 652.10 Investment management.

* * * * *

(c) * * *

(5) *Concentration risk.* Your investment policies must set risk diversification standards. Diversification parameters must be based on the carrying value of investments. You may not invest more than 10 percent of your Regulatory Capital in allowable investments issued by any single entity, issuer, or obligor. Only investments in obligations backed by U.S. Government agencies or GSEs may exceed the 10-percent limit.

* * * * *

■ 4. Section 652.20 is revised to read as follows:

§ 652.20 Eligible non-program investments.

(a) Eligible investments consist of:

(1) A non-convertible senior debt security.

(2) A money market instrument with a maturity of 1 year or less.

(3) A portion of an ABS or MBS that is fully guaranteed by a U.S. Government agency.

(4) A portion of an ABS or MBS that is fully and explicitly guaranteed as to

[12] Farm Credit banks have joint and several liability with each other, but not with Farmer Mac. 12 U.S.C. 2155.

[13] 12 CFR 615.5134(b).

the timely payment of principal and interest by a GSE.

(5) The senior-most position of an ABS or MBS that is not fully guaranteed by a U.S. Government agency or fully and explicitly guaranteed as to the timely payment of principal and interest by a GSE, provided that the MBS satisfies the definition of ''mortgage related security'' in 15 U.S.C. 78c(a)(41).

(6) An obligation of an international or multilateral development bank in which the U.S. is a voting member.

(7) Shares of a diversified investment fund, if its portfolio consists solely of securities that satisfy investments listed in paragraphs (b)(1) through (b)(3) of this section.

(b) Farmer Mac may only purchase those eligible investments satisfying all of the following:

(1) At a minimum, at least one obligor of the investment has a very strong capacity to meet financial commitments for the life of the investment, even under severely adverse or stressful conditions, and generally presents a very low risk of default. Investments whose obligors are located outside the U.S., and whose obligor capacity to meet financial commitments is being relied upon to satisfy this requirement, must also be fully guaranteed by a U.S. Government agency.

(2) The investment must exhibit low credit risk and other risk characteristics consistent with the purpose or purposes for which it is held.

(3) The investment must be denominated in U.S. dollars.

■ 5. Add § 652.23 to read as follows:

§ 652.23 Other non-program investments.

(a) Farmer Mac may make a written request for our approval to purchase and hold other non-program investments that do not satisfy the requirements of § 652.20. Your request for our approval to purchase and hold other non-program investments at a minimum must:

(1) Describe the investment structure;

(2) Explain the purpose and objectives for making the investment; and

(3) Discuss the risk characteristics of the investment, including an analysis of the investment's impact to capital.

(b) We may impose written conditions in conjunction with our approval of your request to invest in other non-program investments.

(c) For purposes of applying the provisions of this subpart, except § 652.20, investments approved under this section are treated the same as eligible non-program investments unless our conditions of approval state otherwise.

■ 6. Section 652.25 is revised to read as follows:

§ 652.25 Ineligible investments.

(a) *Investments ineligible when purchased.* Non-program investments that do not satisfy the eligibility criteria set forth in § 652.20(a) or have not been approved by the FCA pursuant to § 652.23 at the time of purchase are ineligible. You must not purchase ineligible investments. If you determine that you have purchased an ineligible investment, you must notify us within 15 calendar days after such determination. You must divest of the investment no later than 60 calendar days after you determine that the investment is ineligible unless we approve, in writing, a plan that authorizes you to divest the investment over a longer period of time. Until you divest of the investment, it may not be used to satisfy your liquidity requirement(s) under § 652.40, but must continue to be included in the § 652.15(b) investment portfolio limit calculation.

(b) *Investments that no longer satisfy eligibility criteria.* If you determine that a non-program investment no longer satisfies the criteria set forth in § 652.20 or no longer satisfies the conditions of approval issued under § 652.23, you must notify us within 15 calendar days after such determination. If approved by the FCA in writing, you may continue to hold the investment, subject to the following and any other conditions we impose:

(1) You may not use the investment to satisfy your § 652.40 liquidity requirement(s);

(2) The investment must continue to be included in your § 652.15 investment portfolio limit calculation; and

(3) You must develop a plan to reduce the investment's risk to you.

■ 7. Add § 652.27 to read as follows:

§ 652.27 Reservation of authority for investment activities.

FCA retains the authority to require you to divest of any investment at any time for failure to comply with applicable regulations, for safety and soundness reasons, or failure to comply with written conditions of approval. The timeframe set by FCA for such required divestiture will consider the expected loss on the transaction (or transactions) and the effect on your financial condition and performance. FCA may also, on a case-by-case basis, determine that a particular non-program investment poses inappropriate risk, notwithstanding that it satisfies investment eligibility criteria or received prior approval from us. If so, we will notify you as to the proper treatment of the investment.

■ 8. Amend § 652.40 by revising the table in paragraph (c) to read as follows:

§ 652.40 Liquidity reserve requirement and supplemental liquidity.

* * * * *

(c) * * *

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 U.S. Government agencies with a final remaining maturity of 3 years or less.	97 percent.
	GSE senior debt securities that mature within 60 days, excluding securities issued by the Farm Credit System.	95 percent.
	Diversified investment funds comprised exclusively of Level 1 instruments	95 percent.
Level 2	Additional Level 1 investments	Discount for each Level 1 investment applies.
	Obligations of U.S. Government agencies with a final remaining maturity of more than 3 years.	97 percent.
	MBS that are fully guaranteed by a U.S. Government agency	95 percent.
	Diversified investment funds comprised exclusively of Level 1 and 2 instruments.	95 percent.

TABLE TO § 652.40(C)—Continued

Liquidity level	Instruments	Discount (multiply market value by)
Level 3	Additional Level 1 or Level 2 investments	Discount for each Level 1 or Level 2 investment applies.
	GSE senior debt securities with maturities exceeding 60 days, excluding senior debt securities of the Farm Credit System. MBS that are fully guaranteed by a GSE as to the timely repayment of principal and interest. 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).	93 percent for all instruments in Level 3.
Supplemental Liquidity.	Eligible investments under § 652.20 and those approved under § 652.23	90 percent except discounts for Level 1, 2 or 3 investments apply to such investments held as supplemental liquidity.

Dated: October 30, 2018.

Dale Aultman,

Secretary, Farm Credit Administration Board.

[FR Doc. 2018–24045 Filed 11–1–18; 8:45 am]

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DEPARTMENT OF COMMERCE

Bureau of Industry and Security

15 CFR Parts 740, 742, 744, 772, and 774

[Docket No. 170831854–7854–01]

RIN 0694–AH44

Wassenaar Arrangement 2017 Plenary Agreements Implementation

Correction

In rule 2018–22163 beginning on page 53742 in the issue of Wednesday, October 24, 2018 make the following correction:

Supplement No. 1 to Part 774, Category 3 [Corrected]

■ On page 53761, in the second column, the ''CIV'' paragraph for entity 3A001 was inadvertently omitted. Under line twenty-six, it should read, ''*CIV:* Yes for 3A001.a.3, a.7, and a.11.''

[FR Doc. C1–2018–22163 Filed 11–1–18; 8:45 am]

BILLING CODE 1301–00–D

DEPARTMENT OF HOMELAND SECURITY

Coast Guard

33 CFR Part 117

[Docket No. USCG–2018–0407]

Drawbridge Operation Regulation; Schooner Bayou Canal, Little Prairie Ridge, LA

AGENCY: Coast Guard, DHS.

ACTION: Notice of deviation from drawbridge regulation.

SUMMARY: The Coast Guard has issued a temporary deviation from the operating schedule that governs the State Route 82 (Little Prairie) swing span bridge across Schooner Bayou Canal (Old Intracoastal Waterway), mile 4.0, in Little Prairie Ridge, LA. The deviation is necessary to replace hydraulic piping, which will increase the reliability of the bridge's operation. This deviation allows the bridge four approved daylight openings four hours apart and to remain in the closed-to-navigation position at night.

DATES: This deviation is effective from 6 a.m. on November 5, 2018, through 6 p.m. on November 17, 2018.

ADDRESSES: The docket for this deviation, USCG–2018–0407 is available at *http://www.regulations.gov.* Type the docket number in the ''SEARCH'' box and click ''SEARCH''. Click on Open Docket Folder on the line associated with this deviation.

FOR FURTHER INFORMATION CONTACT: If you have questions on this temporary deviation, call or email Ms. Donna Gagliano, Bridge Branch Office, Eighth District, U.S. Coast Guard; telephone 504–671–2128, email *Donna.Gagliano@uscg.mil.*

SUPPLEMENTARY INFORMATION: The Louisiana Department of Transportation and Development (LA–DOTD) has requested a temporary deviation from the operating schedule for the State Route 82 (Little Prairie) swing span bridge across Schooner Bayou Canal (Old Intracoastal Waterway), mile 4.0, at Little Prairie Ridge, LA to replace hydraulic piping that will improve the bridge's operation. The bridge has a vertical clearance in the closed position of 6 feet above mean high water and 9 feet above low water, at the pivot pier, and a foot higher at the rest pier. The current operating schedule is set out in 33 CFR 117.494. The bridge currently opens on signal for the passage of vessels, except that, from 10 p.m. to 6 a.m. it requires at least four hours' notice. For an emergency, the draw will open on less than four hours' notice, and it will open on signal should a temporary surge in waterway traffic occur.

This temporary deviation allows the bridge to open on signal at four approved daylight openings four hours apart, at 6 a.m., 10 a.m., 2 p.m., and 6 p.m., and to otherwise remain in the closed-to-navigation position at night from 6 p.m. through 6 a.m. for a 13 day period from 6 a.m. on Monday, November 5, 2018, through 6 p.m. on Saturday, November 17, 2018. Navigation on the waterway consists of tugs with tows, fishing vessels and recreational craft. The bridge will not be able to open for emergencies; however, an alternate route is available via the Gulf Intracoastal Waterway. The Coast Guard will also inform the waterway users of the changes in operating schedule for the bridge through our Local and Broadcast Notices to Mariners so that vessel operators can arrange their