



December 2, 2014

Christopher Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581

Re:

Margin Requirements for Uncleared Swaps or Swap Dealers and Major Swap
Participants [RIN 3038-AC97]

The National Rural Electric Cooperative Association (NRECA) is the national service organization dedicated to representing the interests of cooperative electric utilities and the consumers they serve. NRECA represents more than 900 not-for-profit rural electric utilities that provide electric energy to over 42 million people in 47 states or 12 percent of electric customers. Kilowatt-hour sales by rural electric cooperatives account for approximately 11 percent of all electric energy sold in the United States. NRECA members generate approximately 50 percent of the electric energy they sell and purchase the remaining 50 percent from non-NRECA members. NRECA's members also include approximately 65 generation and transmission ("G&T") cooperatives, which generate and transmit power to 668 of the 838 distribution cooperatives. The G&Ts are owned by the distribution cooperatives they serve. Remaining distribution cooperatives receive power directly from other generation sources within the electric utility sector. Both distribution and G&T cooperatives were formed to provide reliable electric service to their owner-members at the lowest reasonable cost.

The National Rural Utilities Cooperative Finance Corporation ("CFC") is a nonprofit member-owned cooperative association whose primary purpose is to provide its members with financing to supplement the loan programs of the United States Department of Agriculture's Rural Utilities Service. CFC's was formed in 1969 as a result of an effort by NRECA and today its members

remain those rural electric cooperatives who are virtually the same members of NRECA. CFC lends to its members so they can acquire, build and operate electric distribution, generation, transmission and related facilities throughout the country. For most of its members CFC serves as a major (and for approximately 200 members, the only) financial resource. Many CFC members have access to a wide variety of borrowing options, yet choose to borrow exclusively from CFC because of attractive rates and flexible products. As of May 31, 2014, CFC had loans and guarantees outstanding of \$21 billion to its rural electric cooperative members.

CFC is an end user that uses over-the-counter derivatives solely to hedge the interest rate risks associated with lending to its members. CFC's swap counterparties are typically swap dealers registered with the Commodity Futures Trading Commission (CFTC), and as such are subject to a comprehensive regulatory framework. CFC uses risk management and interest rate hedging products that are otherwise unavailable to or too expensive or inefficient for most of their members.

NRECA is filing this letter in full and complete support of CFC's request to be excluded from the term "financial end user" and be exempt from any margining requirements which may be imposed by the actions of the CFTC. It is NRECA's belief that the imposition of margin upon CFC would unnecessarily raise the cost of loans to our mutual members without a commensurate benefit.

NRECA believes that it was clearly the intent of Congress that entities such as CFC, which participates in hedging activities on behalf of its members, not be burdened with a regulatory regime which is applicable to world's largest financial institutions. All of CFC's members are end users and depend upon CFC to act on their behalf to mitigate their exposure to interest rates because it is burdensome or impossible for them to act individually to hedge their commercial risk.

CFC is a nonprofit entity created to serve public-interest goals, acting as the financing arm of its member rural electric cooperatives. CFC is not a bank, savings association, credit union or other insured depository institution. Since its inception in 1969, CFC has been focused on providing its members with financing at the lowest possible cost and not with an intention to maximize profits. As a cooperative, CFC's margins are returned to its member cooperatives. CFC is not operated for the purpose of making profits nor does it lend to the general public.

NRECA believes that the CFTC has the necessary discretion to grant CFC's request to be exempt from initial and variation margin and we urge you to act accordingly. Many of CFC's members serve the most rural and impoverished areas of the United States. Exempting CFC from a requirement to post margin would ensure that their members don't have to bear a needless cost of regulation which would not contribute to the benefit of the stability of the global financial system.

Respectively submitted,



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