

Testimony of James M. Field

Senior Vice President and Chief Financial Officer
Deere & Company

Before the
Committee on Agriculture
U.S. House of Representatives

31 March 2011

Good afternoon.

My name is Jim Field, and I am Senior Vice President and Chief Financial Officer of Deere & Company.

I am pleased to have this opportunity to share Deere & Company's perspectives on the implementation of Title VII of the Dodd Frank Wall Street Reform and Consumer Protection Act. Deere & Company is also a member of the Coalition for Derivatives End-Users who share our perspective. As with most major multinational companies, the new law will impact many aspects of our business, especially our captive finance business.

Deere & Company is a leading global manufacturer of agricultural, construction, forestry and turf care equipment, and provides advanced products and services, including financial services, to customers whose work is linked to the land - those who cultivate, harvest, transform, enrich and build upon the land to meet the world's dramatically increasing need for food, fuel, shelter and infrastructure. We are headquartered in Moline, Illinois, with sales in over 100 countries and employing over 56,000 people. Since 1837, John Deere has delivered innovative products of superior quality built on a tradition of integrity.

Through our captive finance business, John Deere Financial Services, Inc., we provide literally tens of millions of dollars of liquidity into rural America each and every day. We provide essential financing to agricultural producers, construction contractors, commercial landscapers and foresters seeking to purchase high-quality John Deere equipment. This source of financing is essential to our customers' success and directly contributes to the growth and prosperity of local economies across the country.

My testimony today will focus on the impacts of Title VII on derivatives end-users and, in particular, the End-Use Exception and Captive Finance Provision that were added to the Commodity Exchange Act through the Dodd Frank Act.

As the Committee knows, derivatives are an essential tool for companies like John Deere to manage commercial risks inherent in our business, such as interest rate and foreign exchange risks. We do not use derivatives for speculative purposes.

The prudent use of derivatives supports our ability to provide high-quality products and services to U.S. farmers and to customers around the world.

We provide financing for our customers on a significant percentage of our sales in both good and bad economic times. Our financial services operations have over \$25 billion in assets. We offer fixed and variable rate financing to meet the various long and short-term financing needs of our customers. We issue debt in the commercial paper, medium term note, and asset-backed securitization markets to fund our loan and lease portfolios. Institutional debt investors purchase the majority of our debt securities, and the demand for these securities varies as economic conditions change. Derivatives enable us to match the interest rate characteristics of the funding available in the capital markets with the financing needs of our customers. This was especially critical during the credit crisis. John Deere's volume of new loans to customers and dealers increased during the credit crisis as we were able to provide product financing when other financial institutions curtailed lending. During the crisis, we were able to issue long-term fixed rate notes in the capital markets and use interest rate swaps to match the fixed and floating rate loans and leases that we provided to our customers. We employ this strategy of issuing longer-termed debt even in good economic times to reduce our refunding risk.

For a swap to be effective, it must match the timing and amount of the cash flows of the hedged exposure. Therefore, the terms of our interest rate swaps are customized to match the terms of the debt we issue. They will match the currency, principal or notional amount, interest rates, and maturity dates. Standardized contracts with predetermined terms would be a far less effective tool for hedging our risk exposure.

Derivatives provide stability to our business. At the end of our most recent first quarter, John Deere had over \$15 billion notional amount of derivative transactions outstanding. That is a large number, but it corresponds to the more than \$25 billion of credit we have extended to our customers and dealers to purchase the equipment they need to help drive the economy. The fair value of these derivatives, which represents the price to terminate or settle the positions, was approximately \$253 million, and was a receivable for John Deere – our counterparties would owe us that amount if we terminated the derivatives.

John Deere worked closely with the Congress on the derivatives reform legislation and commends this Committee for its leadership on that important title. While we believe the statutory direction is generally clear, the current rulemaking process has not yet adequately settled several implementation concerns. I would like to highlight several areas for the Committee, all of which are subject to ongoing rulemaking proceedings.

Congress provided an exception for captive finance companies from the major swap participant definition. This exception is defined as

“entities whose primary business is providing financing and use derivatives for the purpose of hedging underlying commercial risks related to interest rate and foreign currency exposures, 90 percent or more of which arise from financing that facilitates the purchase or lease of products, 90 percent or more of which are manufactured by the parent company or another subsidiary of the parent company.”

We are concerned that the statutory language is imprecise and could be interpreted in a manner to inadvertently preclude many end-users, for whom the exception is intended, from qualifying.

We are currently seeking guidance to clarify the application of the captive finance provision to ensure it reflects how we operate in practice. For instance, as a captive finance company we facilitate the sale of all products sold by the parent and its dealers, not just those that are manufactured by the parent or another subsidiary. We may finance an implement manufactured by another company along with one of our tractors as part of the entire sale. We also facilitate the financing for parts and service on John Deere equipment. For instance, we provide financing for significant overhauls on pieces of equipment. This work is done at a John Deere dealership, for a John Deere customer, using both Deere and non-Deere parts. A significant portion of the financing covers the labor costs. We interpret the full value of these notes to fall under the exception, but others might interpret this differently.

We are seeking further clarity that reflects Congress' intent while not adding burdensome requirements. Regulations that provide either a broader exception or additional clarity reflecting ordinary business activities are necessary.

In addition to the major swap participant exemption for captive finance companies, the Commodity Futures Trading Commission (CFTC) proposed a rulemaking to include a mandatory clearing exemption for a captive finance company. We want to ensure that the definition of a captive finance company as it applies to the mandatory clearing exemption is consistent with the definition of a captive finance company as it applies to the major swap participant exemption.

A second area of concern relates to the exemption from mandatory clearing requirements for derivatives end users, such as John Deere. While it appears that the exemption would apply to our trades, a regulatory requirement on swap dealers and major swap participants to collect margin from end-users could effectively eliminate the benefits of the clearing exemption. Hence, we strongly support a statutory provision that prohibits regulatory agencies from requiring swap dealers or major swap participants to post or collect capital or margin on trades that are executed with a financial or non-financial end-user counterparty.

If John Deere is required to clear swaps independently or post margin through our transactions with a swap dealer or major swap participant, we would need to divert working capital to comply with this requirement. Furthermore, the requirements of

posting margin on a daily basis could create additional costs and administrative burdens on an end-user engaged in derivatives primarily to manage risk.

We are also seeking clarification that unintended parties are not defined as a swap dealer or major swap participant. The CFTC and SEC propose to consider the "economic reality" of transactions between wholly-owned affiliates, "including whether the swaps and security-based swaps simply represent an allocation of risk within a corporate group." John Deere supports this interpretation and would note further that the regulators should not limit an interpretation of inter-affiliate transactions to those between wholly-owned affiliates.

Transactions between commonly-controlled affiliates, as well as swap transactions done by one corporate treasury entity to hedge the commercial risk of another entity in the same corporate group, merely represent the shifting or hedging of risk within a corporate group and do not pose any more or any less risk to the economy as a whole. Including such inter-affiliate swaps or affiliate risk-hedging swaps for purposes of calculating the major participant definitions would effectively "double-count" the same swaps, as swaps subsequent to the market-facing transaction simply transfer a swap's risk-mitigation qualities to affiliated entities.

We also have some concerns with potentially conflicting rules from the U.S. Department of Labor regarding utilization of swaps by pension plans that could, unintentionally, restrict the ability of ERISA-covered plans like John Deere's from utilizing derivative markets to manage risks.

Lastly, John Deere wishes to emphasize the importance of getting this regulation right for all derivative end-users. We recognize the substantial efforts being made by the regulatory agencies to advance several concurrent rulemakings, in order to meet the timelines provided by Congress. However, given the complexity of the business issues involved, the number of potentially affected market participants, and the potential disruption to legitimate risk mitigation strategies, we believe that an extension of the date by which rules must be promulgated, as well as a workable implementation schedule, should be considered.

Let me again reiterate John Deere's appreciation for this opportunity to appear before the Committee today. I would be pleased to answer your questions.

Thank you.

James M. Field

Senior Vice President and Chief Financial Officer Deere & Company

James M. Field is Senior Vice President and Chief Financial Officer, Deere & Company, a position he has held since June 2009. He is responsible for advising the CEO and division presidents on major financial and strategic growth issues, and for managing Deere & Company's worldwide financial and planning functions. He is also responsible for business planning and development, investor communications, and enterprise information technology.

Field joined Deere & Company in 1994 and has held a number of positions in the areas of accounting, treasury, and business development and planning. Field served as Chief Financial Officer of Deere's former Timberjack Group, responsible for all accounting, finance and treasury functions. He was appointed Comptroller, Deere & Company, in May 2001, and Vice President and Comptroller, Deere & Company, in September 2002. Field was named President, Worldwide Commercial & Consumer Equipment Division in September 2007. Before joining Deere, he served in a number of assignments at Deloitte & Touche.

Field is a 1985 graduate of Western Michigan University, and holds a CPA. He is a member of the Illinois CPA Society and the American Institute of CPA.

Deere & Company (NYSE: DE) is a world leader in providing advanced products and services and is committed to the success of customers whose work is linked to the land - those who cultivate, harvest, transform, enrich and build upon the land to meet the world's dramatically increasing need for food, fuel, shelter and infrastructure. Since 1837, John Deere has delivered innovative products of superior quality, built on a tradition of integrity. For more information, visit John Deere at its worldwide website at www.JohnDeere.com.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2008.

Name: JAMES M. FIELD

Organization you represent (if any): DEERE & COMPANY

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2008, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: NA Amount: _____

Source: NA Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2008, as well as the source and the amount of each grant or contract:

Source: SEE ATTACHED LIST Amount: _____

Source: _____ Amount: _____

Please check here if this form is NOT applicable to you: _____

Signature: 

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

Federal Contracts - Deere & Company

Construction & Forestry

General Contracts

Contract Number: GS-30F-0013U
Contract Title: General Services Administration (GSA)
Machines on Contract: Backhoe/Loaders, Dozers, Wheel Loaders,
Motor graders, Excavators, and Skid Steer Loaders
Award Price: Unlimited
Contract Period: 20 March 2008 – 19 March 2013
Quantity on Contract: Unlimited
Locations: Federal agencies across the U.S.

Contract Number: SPM500-01-D-0071
Contract Title: Defense Supply Center Philadelphia (DSCP)
Machines on Contract: Backhoe/Loaders, Dozers, Wheel Loaders,
Motor Graders, Excavators, and Skid Steer Loaders
Award Price: Unlimited
Contract Period: 1 June 2001 – 31 May 2011
Quantity on Contract: Unlimited
Locations: Federal agencies across the U.S.

Contract Number: 982108D110
Contract Title: IDIQ
Machines on Contract: Loaders, Crawler Dozers, Backhoes, Motor Graders,
Excavators, Skid Steers
Award Price: Indefinite
Contract Period: 16 April 2008 – 31 Dec 2012
Quantity on Contract: Indefinite
Locations: US Fish & Wildlife locations across the U.S.

Specific Current Contracts

Contract Number: M67854-07-D-5010
Contract Title: Tractor, Rubber Tired, Articulated Steering,
Multi-Purpose (TRAM)
Machines on Contract: 624K Loader
Award Price: \$147 Million
Award Date: 28 Nov. 2006
Projected Completion Date: 27 Nov 2011; Ongoing
Quantity on Contract: 855
Locations: Marines – various locations

Contract Number: M67854-07-D-5024
Contract Title: Medium Crawler Tractor (MCT)
Machines on Contract: 850JR Crawler
Award Price: \$128 Million
Award Date: 11 Sept 2007
Projected Completion Date: 12 Sept. 2010, Ongoing
Quantity on Contract: 391
Locations: Marines – various locations

Contract Number: W56HZV-09-D-0064
Contract Title: TACOM Hydraulic Excavator (HyEx)
Machines on Contract: 240D LCR Excavator
Award Price: \$43 Million
Award Date: 30 Jan 2009 (5 year contract)
Projected Completion Date: 29 Jan 2014 - Ongoing
Quantity on Contract: Various (currently ordered 50)
Locations: Army – various locations

Specific Completed Contracts

Contract Number: SPM500-01-D-0071-0137
Contract Title: Navy
Machines on Contract: 444JR
Award Price: \$13.8 Million
Award Date: 17 Feb 2008
Completion date: 30 June 2008
Quantity on Contract: 96 (56 to Port Hueneme, 40 to Gulfport)
Locations: Navy – various locations

Contract Number: M67854-07-C-5087
Contract Title: Marine Skid Steers
Machines on Contract: 325 Skid Steer
Award Price: \$1.8 Million
Award Date: 28 Sept 2007
Completion Date: 16 Aug 2008
Quantity on Contract: 20
Locations: Marines - Iraq & Afghanistan

Contract Number: W56HZV-07-C-0353
Contract Title: Used Hyex
Machines on Contract: 230C Excavator
Award Price: \$3.6 Million
Award Date: 27 June 2007
Completion Date: Feb 2008
Quantity on Contract: 16
Locations: Army – various locations

Contract Number: SPM500-01-D-0071-0014
Contract Title: Marines - Hydraulic Excavators, Armored
Machines on Contract: 270D Excavator
Award Price: \$4.1 Million
Award Date: 24 Mar 2007
Completion Date: 24 July 2007
Quantity on Contract: 10
Locations: Marines – various locations

Contract Number: W56HZV-06-D-0069
Contract Title: RESET – John Deere Hydraulic Excavators
Machines on Contract: 230LCR, 230LCRD, 330LCR (Excavators); 410
Backhoe 450 & 550 Crawler Dozers
Award Price:
Award Date: 18Aug 06
Completion Date:
Quantity on Contract:
Locations: Army – various locations

AG & Turf

General Services Administration (GSA)

Schedule Title: Hardware SuperStore, Department 7, Lawn and Garden
Equipment
FSC Group, Part, and Section or Standard Industrial Group: 51 V
FSC Class(es)/Product Code(s) and/or Service Code(s): 36 & 37
Contract Number: GS-06F-0083S
Volume: \$25,813,050 (June06-Mar10)

Schedule Title: Schedule 23V - Vehicle Multiple Award Schedule
FSC Group, Part, and Section or Standard Industrial Group: 38-Construction,
Mining,
Excavating and Highway Maintenance
FSC Class(es)/Product Code(s) and/or Service Code(s): FSC 3805 –
Construction
Equipment; FSC 3830 - Construction Equipment Attachments
Contract Number: GS-30F-0007T
Volume: \$50,803,004 (Sep06-Mar10)

Schedule Title: Federal Supply Schedule 078 - Sports, Promotional, Outdoor,
Recreation, Trophies and Signs
FSC Group: 78 - Sports and More
Contract Number: GS-07F-9670S
Volume: \$15,476,503 (Nov06-Mar10)

Defense Logistics Agency (DLA)

DLA - \$10,858,855 (Oct02-Mar10)

Air Force Non-Appropriated Funds (AFNAF)

AFNAF - \$5,222,240 (Jun06-Mar10)