§ 630.6 Funding Corporation committees.

(a) System Audit Committee. The Funding Corporation must establish and maintain a System Audit Committee (SAC) by adopting a written charter describing the committee’s composition, authorities, and responsibilities in accordance with this section. The SAC must maintain records of meetings, including attendance, for at least 3 fiscal years.

(i) Composition. All SAC members should be knowledgeable in at least one of the following: Public and corporate finance, financial reporting and disclosure, or accounting procedures.

(ii) The SAC may not consist of less than three members and at least one member must be a financial expert. A financial expert is one who either has experience with internal controls and procedures for financial reporting or experience in preparing or auditing financial statements.

(iii) The chair of the SAC must be a financial expert.

(2) Independence. Every audit committee member must be free from any relationship that, in the opinion of the Funding Corporation board, would interfere with the exercise of independent judgment as a committee member.

(3) Resources. The Funding Corporation must permit the SAC to contract for independent legal counsel and expert advisors. The Funding Corporation is responsible for providing monetary and nonmonetary resources to enable the SAC to contract for external auditors, outside advisors, and ordinary administrative expenses. A two-thirds majority vote of the full Funding Corporation board of directors is required to deny any SAC request for resources.
(4) **Duties.** The SAC reports only to the Funding Corporation board of directors. In its capacity as a committee of the board, the SAC is responsible for the following:

   (i) **Financial reports.** The SAC must oversee the Funding Corporation’s preparation of the report to stockholders and investors; review the impact of any significant accounting and auditing developments; review accounting policy changes relating to preparation of the System-wide combined financial statements; and review annual and quarterly reports prior to release. After the SAC reviews a financial policy, procedure, or report, it must record in its minutes its agreement or disagreement with the item(s) under review.

   (ii) **External auditors.** The external auditor must report directly to the SAC. The SAC must:

   (A) Determine the appointment, compensation, and retention of external auditors issuing System-wide audit reports;

   (B) Review the external auditor’s work;

   (C) Give prior approval for any non-audit services performed by the external auditor, except the audit committee may not approve those non-audit services specifically prohibited by FCA regulation; and

   (D) Comply with the auditor independence provisions of part 621 of this chapter.

(iii) **Internal controls.** The SAC must oversee the Funding Corporation’s system of internal controls relating to preparation of financial reports, including controls relating to the Farm Credit System’s compliance with applicable laws and regulations.

(b) **Compensation committee.** The Funding Corporation must establish and maintain a compensation committee by adopting a written charter describing the committee’s composition, authorities, and responsibilities in accordance with this section. The compensation committee will be required to maintain records of meetings, including attendance, for at least 3 fiscal years.

(1) **Composition.** The committee must consist of at least three members. Each committee member must be a member of the Funding Corporation’s board of directors. Every member must be free from any relationship that, in the opinion of the board, would interfere with the exercise of independent judgment as a committee member.

(2) **Duties.** The compensation committee must report only to the board of directors. In its capacity as a committee of the board, the compensation committee is responsible for reviewing the compensation policies and plans for senior officers and employees. The compensation committee must approve the overall compensation program for senior officers.

(3) **Resources.** The Funding Corporation must provide monetary and non-monetary resources to enable its compensation committee to function.


## Subpart B—Annual Report to Investors

**§ 630.20** Contents of the annual report to investors.

The annual report must contain the following:

(a) **Description of business.** (1) The description shall include a brief discussion of the following:

   (i) The System’s overall organizational structure, its lending institutions by type and their respective authorities, the relationships between different types of institutions, and the overall geographic area and eligible borrowers served by those institutions;

   (ii) The types of lending activities engaged in and financial services offered by System institutions;

   (iii) Any significant developments within the last 5 years that have had or could have a material impact on the System’s organizational structure and the manner in which System institutions conduct business, including, but not limited to, statutory or regulatory changes, mergers or liquidations of System institutions, terminations of System institution status, and financial assistance provided by or to System institutions through loss-sharing or capital preservation agreements or from any other source;

   (iv) Any acquisition or disposition of material assets during the last fiscal years.