§ 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.

(1) 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.

(i) At least one-third of the SAC members must be representatives from the Farm Credit System.

(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 provide the SAC monetary and nonmonetary resources the SAC determines necessary to enable it to perform the duties listed in paragraph (a)(4) of this section. The Funding Corporation must permit the SAC to contract, for reasons directly related to the duties listed in paragraph (a)(4) of this section, the services of external auditors, independent legal counsel, and outside advisors. The SAC must only use the resources of the Funding Corporation in a manner that complies

§ 630.6 from taking additional actions to enforce this section pursuant to its authority under title V, part C of the Act.

(b) Signatures. The name and position title of each person signing the report must be printed beneath his or her signature. If any person required to sign the report has not signed the report, the name and position title of the individual and the reasons such individual is unable to, or refuses to, sign must be disclosed in the report. All reports must be dated and signed on behalf of the Funding Corporation by:

(1) The chief executive officer (CEO);

(2) The officer in charge of preparing financial statements; and

(3) A board member formally designated by action of the board to certify reports of condition and performance on behalf of individual board members.

(c) Certification of financial accuracy. The report must be certified as financially accurate by the signatories to the report. If any signatory is unable to, or refuses to, certify the report, at a minimum, the certification must include a statement that:

(1) The signatories have reviewed the report,

(2) The report has been prepared in accordance with all applicable statutory or regulatory requirements, and

(3) The information is true, accurate, and complete to the best of signatories’ knowledge and belief.

(d) Management assessment of internal control over financial reporting. (1) Annual reports must include a report by the Funding Corporation’s management assessing the effectiveness of the internal control over financial reporting for the System-wide report to investors. The assessment must be conducted during the reporting period and be reported to the Funding Corporation’s board of directors. Quarterly and annual reports must disclose any material change(s) in the internal control over financial reporting occurring during the reporting period.

(2) The Funding Corporation must require its external auditor to issue an attestation report, which must express an opinion on the effectiveness of internal control over financial reporting. The resulting attestation report must accompany management’s assessment and be included in the annual report.

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with laws and regulations and for the purpose of preserving and promoting the safety and soundness of the System. The SAC must provide the Funding Corporation board of directors a quarterly accounting of expenditures made pursuant to this section.

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, with the agreement of the Funding Corporation board of directors, the appointment, compensation, and retention of the 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.


EFFECTIVE DATE NOTE: At 77 FR 60602, Oct. 3, 2012, §630.6 was amended by revising (b), effective 30 days after publication in the Federal Register during which either or both Houses of Congress are in session. For the convenience of the user, the revised text is set forth as follows:

§ 630.6 Funding Corporation committees.

* * * * *

(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 is 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 and all members must be members of the Funding Corporation’s board of directors. Every compensation committee 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) Responsibilities. It is the responsibility of the compensation committee to review the compensation policies and plans for senior officers and employees and to approve the overall compensation program for senior officers. In fulfilling its responsibilities, the compensation committee must document that it determined the:

(i) Funding Corporation’s projected long-term compensation and retirement benefit obligations are appropriate to the services performed and not excessive;

(ii) Incentive-based compensation programs and payments are reasonable and proportionate to the services performed and structured so the payout schedule considers the potential for future losses or undue risks to the Funding Corporation; and

(iii) Senior officer compensation, incentive, and benefit programs support the Funding Corporation’s long-term business strategy and mission, as well as promote safe and sound business practices.

(3) Resources. The Funding Corporation must provide monetary and nonmonetary resources to enable its compensation committee to perform its duties.

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 year that took place outside the ordinary course of business;

(v) Any concentrations of more than 10 percent of total assets in particular types of agricultural activities or businesses, and any dependence of an institution or a group of institutions of the System upon a specific activity or business, a single customer, or a few customers, including other financing institutions (OFIs), the loss of any one of which would have a material effect on the System; and

(vi) The authority of System institutions to purchase and sell interests in loans in secondary markets and the risk involved in such activities.

(b) Federal regulation and insurance—

(1) Farm Credit Administration. Describe the regulatory and enforcement authority of the FCA over System institutions under the Act.

(2) Farm Credit System Insurance Corporation. (i) Describe the role and authorities of the Farm Credit System Insurance Corporation (FCSIC) under part E of title V of the Act. Describe specifically the role of the FCSIC in insuring the timely payment of principal and interest on FCS debt obligations and in providing assistance to System institutions.

(ii) Describe the FCSIC’s status as a Government corporation and state that System institutions have no control over the management of the FCSIC or the discretionary expenditures from the Farm Credit Insurance Fund (Insurance Fund), which are the sole prerogative of the FCSIC.

(c) Description of legal proceedings and enforcement actions. (1) Describe any material pending legal proceedings in which one or more System institutions are a party, or that involve claims that a System institution(s) may be required by contract or operation of law to satisfy, and the potential impact of such proceedings, to the extent known, on the System.

(2) Provide a summary of the types of enforcement actions in effect during

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