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shareholders was prepared, disclosure shall be made of such change in the information statement.

(ii) If a Farm Credit institution has had a change or changes in its external auditor(s) since the last annual report to shareholders, or if a disagreement with an external auditor has occurred, the institution shall disclose the information required by § 621.4(c) and (d) of this chapter.

(4) *Directors.* State the names and ages of persons currently serving as directors of the institution, their terms of office, and the periods during which such persons have served. Institutions must also state the type or types of agriculture or aquaculture engaged in by each director. No information need be given with respect to any director whose term of office as a director will not continue after any meeting to which the statement relates.

(i) Identify by name any incumbent director who attended fewer than 75 percent of the board meetings or any meetings of board committees on which he or she served during the last fiscal year.

(ii) If any director resigned or declined to stand for reelection since the last annual meeting because of a policy disagreement with the board, and if the director has provided a notice requesting disclosure of the nature of the disagreement, state the date of the director's resignation and summarize the director's description of the disagreement. If the institution holds a different view of the disagreement, the institution's view may be summarized as well.

(b) An AMIS issued for director elections must also include the information required by this paragraph.

(1) Provide the nominating committee's slate of director-nominees. If fewer than two director-nominees for each position are named, describe the efforts of the nominating committee to locate two willing nominees.

(2) Provide, as part of the AMIS, the director-nominee disclosure information collected under § 611.330 of this chapter. Institutions may either restate such information in a standard format or provide complete copies of each nominee's disclosure statement.

(3) State whether nominations will be accepted from the floor and explain the procedures for making floor nominations.

(c) When the nominating committee will be elected during director elections, notice to voting shareholders of this event must be included in the AMIS. The AMIS must describe the balloting procedures that will be used to elect the nominating committee, including whether floor nominations for committee members will be permitted. The AMIS must state the number of committee positions to be filled and the names of the nominees for the committee.

(d) If shareholders are asked to vote on matters not normally required to be submitted to shareholders for approval, the AMIS must describe fully the material circumstances surrounding the matter, the reason shareholders are asked to vote, and the vote required for approval of the proposition. The AMIS must describe any other matter that will be discussed at the meeting upon which shareholder vote is not required.

[75 FR 18744, Apr. 12, 2010, as amended at 77 FR 60601, Oct. 3, 2012]

### Subpart F—Bank and Association Audit and Compensation Committees

SOURCE: 71 FR 5766, Feb. 2, 2006, unless otherwise noted.

#### § 620.30 Audit committees.

Each Farm Credit bank and association must establish and maintain an audit committee. An audit committee is established by adopting a written charter describing the committee's composition, authorities, and responsibilities in accordance with this section. All audit committees must maintain records of meetings, including attendance, for at least 3 fiscal years.

(a) *Composition.* Each member of an audit committee must be a member of the Farm Credit institution's board of directors. An audit committee may not consist of less than three members and must include any director designated as a financial expert under § 611.210(a)(2) of this chapter. All audit

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committee members should be knowledgeable in at least one of the following: Public and corporate finance, financial reporting and disclosure, or accounting procedures.

(b) *Independence.* Every audit 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.

(c) *Resources.* Farm Credit institutions must permit their audit committees to contract for independent legal counsel and expert advisors. If an institution hires a financial expert advisor pursuant to §611.210(a)(2), that advisor will also serve as an advisor to the audit committee. Each institution is responsible for providing monetary and nonmonetary resources to enable its audit committee to contract for external auditors, outside advisors, and ordinary administrative expenses. A two-thirds majority vote of the full board of directors is required to deny an audit committee's request for resources.

(d) *Duties.* Each audit committee must report only to the board of directors. In its capacity as a committee of the board, the audit committee is responsible for the following:

(1) *Financial reports.* Each audit committee must oversee management's preparation of the report to shareholders; review the impact of any significant accounting and auditing developments; review accounting policy changes relating to preparation of financial statements; and review annual and quarterly reports prior to release. After the audit committee reviews a financial policy, procedure, or report, it must record in its minutes its agreement or disagreement with the item(s) under review.

(2) *External auditors.* The external auditor must report directly to the audit committee. Each audit committee must:

(i) Determine the appointment, compensation, and retention of external auditors issuing audit reports of the institution;

(ii) Review the external auditor's work;

(iii) Give prior approval for any non-audit services performed by the exter-

nal auditor, except the audit committee may not approve those non-audit services specifically prohibited by FCA regulation; and

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

(3) *Internal controls.* Each audit committee must oversee the institution's system of internal controls relating to preparation of financial reports, including controls relating to the institution's compliance with applicable laws and regulations. Any internal audit functions of the institution must also be subject to audit committee review and supervision.

[53 FR 50339, Dec. 15, 1988, as amended at 71 FR 76120, Dec. 20, 2006]

### § 620.31 Compensation committees.

Each Farm Credit bank and association 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 must report only to the board of directors. All compensation committees are required to maintain records of meetings, including attendance, for at least 3 fiscal years.

(a) *Composition.* Each compensation committee must consist of at least three members and all committee members must be members of the institution'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.

(b) *Responsibilities.* It is the responsibility of each 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:

(1) Institution's projected long-term compensation and retirement benefit obligations are appropriate to the services performed and not excessive;

(2) 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 institution;

(3) Senior officer compensation, incentive, and benefit programs support the institution's long-term business strategy and mission, as well as promote safe and sound business practices; and

(4) Compensation programs designed for specific groups of employees, other than senior officers, pose no imprudent risks to the institution.

(c) *Resources*. Each institution must provide monetary and nonmonetary resources to enable its compensation committee to perform its duties.

[77 FR 60601, Oct. 3, 2012]

## PART 621—ACCOUNTING AND REPORTING REQUIREMENTS

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AUTHORITY: Secs. 4.12(b)(5), 5.17, 5.22A, 8.11 of the Farm Credit Act (12 U.S.C. 2183, 2252, 2257a, 2279aa-11); sec. 514 of Pub. L. 102-552.

SOURCE: 58 FR 48786, Sept. 20, 1993, unless otherwise noted.

## Subpart A—Purpose and Definitions

### § 621.1 Purpose and applicability.

This part sets forth accounting and reporting requirements to be followed by all banks, associations, and service corporations chartered under the Act; the Federal Farm Credit Banks Funding Corporation; and, where specifically indicated, the Federal Agricultural Mortgage Corporation. The requirements set forth in this part are of both general and specific applicability. Certain requirements focus on areas of financial condition and operating performance that are of special importance for generating, presenting, and disclosing accurate and reliable information.

[58 FR 48786, Sept. 20, 1993, as amended at 78 FR 31835, May 28, 2013]

### § 621.2 Definitions.

For the purposes of this part, the following definitions shall apply:

(a) *Accounts and exposures* means data related to any loan, lease, letter of credit, derivative, or, any other asset, liability, other balance sheet account, or off-balance-sheet exposure of a System institution.

(b) *Accrual basis of accounting* means the accounting method in which expenses are recorded when incurred, whether paid or unpaid, and income is reported when earned, whether received or not received.

(c) *Banks and associations* mean all Farm Credit Banks, Agricultural credit banks, and associations.

(d) *Borrowing entity* means the individual(s), partnership, joint venture, trust, corporation, or other business entity, or any combination thereof, that is primarily obligated on the loan instrument.

(e) *Central data repository* means a central data warehouse that electronically collects and stores current and