

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 external 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 offi-

cers. 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

### Subpart A—Purpose and Definitions

Sec.

- 621.1 Purpose and applicability.
- 621.2 Definitions.

### Subpart B—General Rules

- 621.3 Application of generally accepted accounting principles.
- 621.4 Audit by qualified public accountant.
- 621.5 Accounting for the allowance for credit losses and chargeoffs.

### Subpart C—Loan Performance and Valuation Assessment

- 621.6 Categorizing high-risk loans and other property owned.
- 621.7 Rule of aggregation.
- 621.8 Application of payments and income recognition on nonaccrual loans.
- 621.9 Reinstatement to accrual status.
- 621.10 Monitoring of performance categories and other property owned.