

## Farm Credit Administration

## § 653.3

in the level of risky mortgage positions, both on- and off-balance sheet. Provision reversals represent reductions in the reserve levels due to reduced risk of loan losses or loan volume of risky mortgage positions. The liabilities section of the “Balance Sheets” worksheet also includes separate line items to disaggregate the Guarantee and commitment obligation related to the Financial Accounting Standards Board Accounting Standards Codification Topic 460, Guarantees. This item is disaggregated to permit accurate calculation of regulatory capital post-adoption of FIN 45. When calculating the stress test, the reserve is maintained at zero to result in a risk-based capital requirement that includes reserves, thereby making the requirement comparable to the statutory definition of regulatory capital. By setting the reserve requirement to zero, the capital position includes all financial resources Farmer Mac has at its disposal to withstand risk.

### 5.1 Method of Calculation

a. Risk-based capital is calculated in the stress test as the minimum initial capital that would permit Farmer Mac to remain solvent for the ensuing 10 years. To this amount, an additional 30 percent is added to account for managerial and operational risks not reflected in the specific components of the stress test.

b. The relationship between the solvency constraint (*i.e.*, future capital position not less than zero) and the risk-based capital requirement reflects the appropriate earnings and funding cost rates that may vary through time based on initial conditions. Therefore, the minimum capital at a future point in time cannot be directly used to determine the risk-based capital requirement. To calculate the risk-based capital requirement, the stress test includes a section to solve for the minimum initial capital value that results in a minimum capital level over the 10 years of zero at the point in time that it would actually occur. In solving for initial capital, it is assumed that reductions or additions to the initial capital accounts are made in the retained earnings accounts, and balanced in the debt accounts at terms proportionate to initial balances (same relative proportion of long- and short-term debt at existing initial rates). Because the initial capital position affects the earnings, and hence capital positions and appropriate discount rates through time, the initial and future capital are simultaneously determined and must be solved iteratively. The resulting minimum initial capital from the stress test is then reported on the “Capital” worksheet of the stress test. The “Capital” worksheet includes an element that uses Excel’s “solver” or “goal seek” capability to calculate the minimum initial capital that, when

added (subtracted) from initial capital and replaced with debt, results in a minimum capital balance over the following 10 years of zero.

[71 FR 77253, Dec. 26, 2006, as amended at 73 FR 31940, June 5, 2008; 76 FR 23467, Apr. 27, 2011; 78 FR 21037, Apr. 9, 2013]

## PART 653—FEDERAL AGRICULTURAL MORTGAGE CORPORATION RISK MANAGEMENT

### Sec.

653.1 Definitions.

653.2 General.

653.3 Risk management.

653.4 Internal controls.

AUTHORITY: Secs. 8.3, 8.4, 8.6, 8.8, and 8.10 of Pub. L. 92-181, 85 Stat. 583 (12 U.S.C. 2279aa-3, 2279aa-4, 2279aa-6, 2279aa-8, and 2279aa-10).

SOURCE: 81 FR 49154, July 27, 2016, unless otherwise noted.

### § 653.1 Definitions.

The following definitions apply to this part:

*Corporation* means the Federal Agricultural Mortgage Corporation and its affiliates.

*FCA* means the Farm Credit Administration, an independent Federal agency of the executive branch.

*OSMO* means the FCA Office of Secondary Market Oversight, which is responsible for the general supervision of the safe and sound exercise of the Corporation’s powers, functions, and duties and compliance with laws and regulations.

### § 653.2 General.

The Corporation’s board of directors must approve the overall risk-appetite of the Corporation and regularly monitor internal controls to provide reasonable assurance that risk-taking activities are conducted in a safe and sound manner.

### § 653.3 Risk management.

(a) *Risk management program.* The Corporation’s board of directors must establish, maintain, and periodically update an enterprise-wide risk management program addressing how the Corporation’s activities are exercised in a

safe and sound manner. The implementation of the risk management program may reside with senior management. The risk management program at a minimum must:

- (1) Periodically assess and document the Corporation's risk profile.
- (2) Align the Corporation's risk profile with the board-approved risk appetite and the Corporation's operational planning strategies and objectives.
- (3) Specify management's authority to carry out risk management responsibilities.
- (4) Integrate risk management and control objectives into management goals and compensation structures.
- (5) Comply with all applicable FCA regulations and policies.

(b) *Risk committee.* The Corporation's board-level risk committee assists the full board of directors in the oversight of the enterprise-wide risk management program of the Corporation.

(1) The risk committee must have at least one member with an understanding of risk management commensurate with the Corporation's capital structure, risk profile, complexity, activities, size, and other appropriate risk-related factors.

(2) The responsibilities of the risk committee include, but are not limited to:

- (i) Periodically assessing management's implementation of the enterprise-wide risk management program;
- (ii) Recommending changes to the risk management program to keep the program commensurate with the Corporation's capital structure, risk appetite, complexity, activities, size, and other appropriate risk-related factors; and

(iii) Receiving and reviewing regular reports directly from personnel responsible for implementing the Corporation's risk management program.

(c) *Management of risk.* The Corporation must have a risk officer, however styled, who is responsible for implementing and maintaining the enterprise-wide risk management practices of the Corporation. The risk officer must have risk management experience commensurate with the Corporation's capital structure, risk appetite, complexity, activities, and size. The re-

sponsibilities of the risk officer include, but are not limited to:

- (1) Identifying and monitoring compliance with risk limits, exposures, and controls;
- (2) Implementing risk management policies, procedures, and risk controls;
- (3) Developing appropriate processes and systems for identifying and reporting risks, including emerging risks;
- (4) Reporting on risk management issues, emerging risks, and compliance concerns; and
- (5) Making recommendations on adjustments to the risk management policies, procedures, and risk controls of the Corporation.

#### § 653.4 Internal controls.

(a) The Corporation's board of directors must adopt an internal controls policy that provides adequate directions for, and identifies expectations in, establishing effective safety and soundness control over, and accountability for, the Corporation's operations, programs, and resources.

(b) The internal controls system must address:

- (1) The efficiency and effectiveness of the Corporation's activities;
- (2) Safeguarding the assets of the Corporation;
- (3) Evaluating the reliability, completeness, and timely reporting of financial and management information;
- (4) Compliance with applicable laws, regulations, regulatory directives, and the policies of the Corporation's board of directors and senior management;
- (5) The appropriate segregation of duties among the Corporation personnel so that personnel are not assigned conflicting responsibilities; and
- (6) The completeness and quality of information provided to the Corporation's board of directors.

(c) The Corporation is responsible for establishing and implementing an effective system to identify internal controls weaknesses and taking action to correct detected weaknesses. The Corporation must document:

- (1) The process used to identify weaknesses,
- (2) Any found weaknesses, and
- (3) How identified weaknesses were addressed.