

News Release

Farm Credit Administration
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FCA Board Approves Final Rules on Compensation Disclosures and System Audit Committee

McLEAN, Va., September 13, 2012 — At its monthly meeting today, the Farm Credit Administration Board approved two final rules. One rule relates to disclosures that Farm Credit System (System) banks and associations make to their stockholders and investors regarding compensation of senior officers and other related topics. The other relates to the authorities of the System Audit Committee (SAC) of the Federal Farm Credit Banks Funding Corporation (Funding Corporation).

The purpose of the senior officer compensation rule is to provide full, transparent and consistent disclosures to stockholders on compensation and retirement benefits. According to the final rule, certain reports to stockholders must include

- disclosure of supplemental retirement plans for all employees, including executives;
- disclosure of the risk and reward structure for senior officer compensation plans;
- a discussion of the relationship of compensation to performance; and
- timely, transparent reporting of significant or material events that occur at System institutions between annual reporting periods.

The rule also establishes minimum responsibilities to be performed by an institution's compensation committee, and requires that System banks and associations provide for a nonbinding, advisory vote by shareholders on senior officer compensation.

The final rule concerning the System Audit Committee removes the current requirement that a two-thirds majority vote of the Funding Corporation board of directors is necessary to deny a request for resources by the SAC. It also clarifies that the SAC must obtain agreement from the Funding Corporation's board in appointing, compensating, and retaining external auditors, and requires reporting on the SAC's use of resources.

In contrast to the proposed rule, which required the committee to disclose in the Systemwide annual report the benefits from its use of resources, the final rule requires the SAC to make this disclosure only to the Funding Corporation board.

The primary responsibility of the SAC is to oversee the Funding Corporation's preparation of Systemwide reports to investors and to review the System's combined financial reports before they are issued. The purpose of the Funding Corporation, which is owned by the four System banks and acts as an agent on behalf of the banks, is to market the debt securities that the banks sell to raise the funds that System institutions lend to farmers and other borrowers.

Both final rules will become effective 30 days after publication in the Federal Register during which either body of Congress is in session. Notice of the effective date will be published in the Federal Register.

All provisions of these final rules require compliance on the effective date except for the provision in § 611.410(b), which states that advisory votes on compensation increases of 15 percent or more are required on CEO and senior officer compensation. This provision takes effect for the fiscal year ending 2013.

Reports

In other business, the Board heard a quarterly report by the Office of Examination on the condition of the Farm Credit System. According to the report, the System continues to be fundamentally safe and sound. It reported strong earnings and higher capital levels in the second quarter. Credit quality in the System's loan portfolio continues to gradually improve and remains strong.

The severe drought has significantly affected the near-term outlook for agriculture, causing a significant increase in corn, soybean and other feedstuffs prices. As a result, the livestock, poultry, dairy and ethanol sectors will likely be negatively impacted, with the possibility of some borrowers experiencing significant stress. These sectors will face an extremely challenging operating environment in the near term.

During the closed session of the meeting, the Board also received an update on supervisory and oversight activities of the Office of Examination.

Notational Votes

Since the August 9 FCA Board meeting, five notational votes have occurred. Notational votes are actions taken by the FCA Board between Board meetings.

- On September 6, the Board voted to approve the reopening of the comment period for the Notice of Proposed Rulemaking regarding margin and capital requirements for swap dealers, major swap participants, security-based swap dealers, and major security-based swap participants for which there is a prudential regulator. The comment period will be open until October 15, 2012.
- On September 6, the FCA Board voted to approve the Fall 2012 Abstract of the Unified Agenda of Federal Regulatory and Deregulatory Actions and the Fall 2012 Regulatory Performance Plan.
- On August 22, the Board granted preliminary and final approval of the proposed Plan of Liquidation for the Farm Credit Finance Corporation of Puerto Rico, a service corporation that suspended operations on December 31, 2005. Approval was granted under FCA's regulation governing voluntary liquidation.

- On September 12, in response to the President's instructions for agencies to reduce costs and promote efficiency, and in compliance with the anticipated passage of the fiscal year 2013 Continuing Resolution, the FCA Board voted to approve the agency's FY 2013 Revised Budget in the amount of \$61,900,000. The FCA Board also voted to approve the agency's FY 2014 Proposed Budget in the amount of \$64,100,000.

Enforcement Action

- On August 21, the Board voted by notational vote to approve the termination of a supervisory agreement with a System institution.

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The Farm Credit Administration is the safety and soundness regulator of the cooperative Farm Credit System and the Federal Agricultural Mortgage Corporation (Farmer Mac). FCA charters, regulates, and examines the 94 banks, associations, service corporations and special-purpose entities of the Farm Credit System. The System makes loans to agricultural producers and their cooperatives nationwide. It includes Farmer Mac, which provides a secondary market for agricultural real estate loans, rural housing mortgage loans, and certain rural utility loans. Members of the FCA Board are Leland A. Strom, Chairman and CEO; Kenneth A. Spearman; and Jill Long Thompson.

Note: FCA news releases are available on the Web at www.fca.gov.