FCA board approves final rule on investment eligibility and proposed rule on standards of conduct

McLEAN, Va., May 10, 2018 — The Farm Credit Administration board today approved a final rule that amends regulations that govern how Farm Credit System banks and associations manage their investments and determine the eligibility of potential investments. The board also approved a proposed rule to amend the agency’s regulations governing standards-of-conduct requirements for System institutions, excluding the Federal Agricultural Mortgage Corporation.

Final rule on investment eligibility

The final rule will strengthen the safety of the investment management practices at System banks so they can better measure, manage, and mitigate risks associated with their investments. It also implements section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act by replacing credit ratings issued by nationally recognized statistical rating organizations with creditworthiness standards that are based on the obligors’ repayment capacity.

In addition, the final rule grants associations greater flexibility regarding the risk management purposes for which they hold investments while establishing new limits on the amount and types of investments they may hold. It also strengthens risk management practices at associations and requires greater bank oversight of association investments.

The final rule will become effective on Jan. 1, 2019. FCA plans to revise a bookletter and to rescind or revise informational memorandums about investment practices so that these guidance documents are consistent with the new investment regulations.

Proposed rule on standards of conduct

This proposed rule would replace an earlier proposed rule on standards of conduct. It would require every System institution to have or develop a standards of conduct program based on certain core principles. The objectives of the proposed rule include the following:

- Establish core principles for ethical conduct and recognize each System institution’s responsibility for promoting an ethical culture.
- Provide each System institution flexibility to develop guidelines on acceptable practices for its business.

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• Require each System institution to adopt a code of ethics and to develop strategies and a system of internal controls to promote institution and individual accountability in ethical conduct.

• Foster ethical culture through training and accountability.

Following a 30-day period for congressional review, the proposed rule will be published in the Federal Register for a 90-day comment period. The public may submit comments by electronic mail to reg-comm@fca.gov, through the Pending Regulations section of FCA’s website at www.fca.gov, or through the federal government Web portal at www.regulations.gov.

The public may also submit comments by mail to Barry F. Mardock, Deputy Director, Office of Regulatory Policy, Farm Credit Administration, 1501 Farm Credit Drive, McLean, VA 22102-5090. The public may read submitted comments at the FCA office in McLean, Virginia, or on FCA’s website at www.fca.gov.

**Closed session**

During the closed session, the FCA board received a periodic report from the Office of Secondary Market Oversight.

**Notational votes**

Since the April 12 FCA board meeting, the following notational votes have occurred. Notational votes are actions taken by the FCA board between board meetings.

- On May 2, the board approved the delegation for reporting of the director of the Office of Secondary Market Oversight.
- On May 3, the board determined not to object to a proposed offering circular of the Farm Credit Bank of Texas for the issuance of stock.
- On May 7, the board approved a modification to FCA’s locality rates.

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The Farm Credit Administration is the safety and soundness regulator of the Farm Credit System. The System consists of two government-sponsored enterprises — a nationwide network of cooperative banks and associations established in 1916, and a secondary market entity known as the Federal Agricultural Mortgage Corporation (Farmer Mac) that was established in 1988. The System’s borrower-owned banks and associations provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible and creditworthy borrowers. Farmer Mac provides a secondary market for agricultural real estate loans, rural housing mortgage loans, and certain rural utility loans. Members of the FCA board are Dallas P. Tonsager, board chairman and CEO, Jeffery S. Hall, and Glen R. Smith.

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