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FCA board approves booklet on interest rate risk management and proposed rule on amortization limits

McLEAN, Va., Jan. 9, 2020 — At its monthly meeting today, the Farm Credit Administration board approved a booklet to update guidance to Farm Credit System institutions on implementing interest rate risk (IRR) management processes. [Bookletter 072 \(PDF\)](#), titled “Interest Rate Risk Management,” will replace Bookletter 012, “Asset/Liability Management Practices.”

The new booklet provides guidance for the following:

- Establishing an IRR management governance framework
- Developing related policies and procedures
- Implementing and assessing the effectiveness of IRR management strategies
- Measuring and reporting IRR exposures
- Maintaining internal controls
- Ensuring adequate staffing and expertise

The booklet addresses risk considerations specific to the System’s structure as a network of wholesale funding banks and affiliated associations. It provides guidance on how to address IRR management requirements in FCA regulations, detailing long-standing basic principles of sound IRR management. The booklet will help System institutions tailor their IRR programs to be commensurate with their levels of risk exposure. This guidance is similar to that of other bank regulators.

Bookletters are documents that communicate the agency’s position on specific issues. Links to all the agency’s bookletters are listed at [FCA bookletters](#), a page on the FCA website under the “Law & regulations” tab.

Proposed rule

In other business, the FCA board approved a proposed rule that would repeal regulatory provisions that impose amortization limits on loans made by production credit associations. Also, for any loan that amortizes over a period that is longer than its term to maturity, the

proposed rule would require System associations to address certain factors through their credit underwriting standards and internal controls.

Following a 30-day period for congressional review, the proposed rule will be published in the Federal Register for a 60-day comment period. The public may submit comments by electronic mail to reg-comm@fca.gov or through the public comment form on FCA's website.

The public may also submit comments by mail to David Grahn, 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 the public comments page on FCA's website.

Report on fiscal year 2019 financial statements

The board also heard the auditor's report on the audit of FCA's financial statements as of Sept. 30, 2019 and 2018.

FCA's inspector general contracted with Harper, Rains, Knight & Company, P.A., an independent accounting firm, to perform the financial audit. The firm issued an unmodified opinion on the agency's financial statements. It concluded that the financial statements presented fairly, in all material respects, the financial position of FCA as of Sept. 30, 2019 and 2018, in conformity with generally accepted accounting principles.

In addition, the firm did not identify any deficiencies in internal control over financial reporting considered to be material weaknesses. It also found no instance of noncompliance with selected provisions of applicable laws, regulations, contracts, and grant agreements required to be reported.

FCA's inspector general provided oversight of the audit firm's performance, and the review disclosed no instances in which the firm did not comply, in all material respects, with auditing standards.

Closed session

During the closed session, the FCA board held an executive meeting with the auditor. The board also received a report on the 2019 Federal Information Security Modernization Act (FISMA) evaluation by the inspector general.

Notational votes

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

- On Dec. 18, the board delegated authority to the director of the Office of Regulatory Policy to reopen the comment period for the proposed rule on margin and capital requirements for covered swap entities (see 84 FR 59970). FCA, together with four other agencies, announced the reopening of the comment period in a [Dec. 20 news release \(PDF\)](#) and published notice of the reopening in the Federal Register on Dec. 30 (see 84 FR 71833).
- On Dec. 18, the board also approved a revised market emergency standby resolution authorizing temporary relief from certain provisions of FCA's liquidity regulations in the event of an overall market disruption. Relief would be subject to certain

conditions. The revised standby resolution is consistent with § 615.5136(b), which enables the FCA board to adopt a resolution that waives or modifies any of the liquidity requirements in § 615.5134 whenever a financial, economic, agricultural, national defense, or other emergency impedes the normal access of Farm Credit banks to the capital market.

- On Dec. 27, the board authorized the chief financial officer to reallocate funds to cover the compensation and benefits of two employees who transferred between offices.
- On Dec. 27, the board determined that certain member stock funded from the creation of noninterest-bearing accounts receivable is not suitable for inclusion in common equity tier 1 or tier 2 capital. Using its authority provided under § 628.1(d)(2), the board directed FCA staff to instruct System institutions to exclude this stock from common equity tier 1 capital and any other capital measures under the tier 1/tier 2 capital framework.

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