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May 21, 2014

Mr. Barry F. Mardock  
Deputy Director  
Office of Regulatory Policy  
Farm Credit Administration  
1501 Farm Credit Drive  
McLean, VA 22102-5090

RE: Proposed Rule on Standards of Conduct – RIN 3052–AC44 / *Federal Register* 79 (February 20, 2014) 9649-9661

Dear Mr. Mardock:

We are writing this letter on behalf of the Board of Directors of Western AgCredit, ACA. Western AgCredit appreciates the opportunity to provide comments on the Farm Credit Administration's (FCA) proposed rule regarding *Standards of Conduct*. Western AgCredit believes that adherence to appropriate Standards of Conduct is critically important to the reputation and operating performance of all businesses. We hope that our comments provide perspective to FCA that will result in a final rule that is practical and workable throughout the Farm Credit System (System). In addition to our own comments below, we strongly support and endorse the comments being submitted by the Farm Credit Council on behalf of the entire System.

Western AgCredit has a comprehensive Standards of Conduct Policy, which includes a Code of Ethics. All the members of our Board of Directors, Senior Officers and Staff are all held accountable to the expectations and requirements of our Standards of Conduct Policy (including the Code of Ethics). The Standards of Conduct Policy Disclosures are reviewed and updated at least annually by all participants. When FCA published the Standards of Conduct Proposed Rule on February 20, 2014, we closely reviewed the content of our existing Standards of Conduct program to evaluate its effectiveness in providing meaningful guidance and direction to our organization. We feel very strongly that our Association and the System currently have adequate reporting and controls in place to deter all non-fraudulent transgressions. It is our recommendation that all Associations or related System entities be expected to enforce the current regulations versus adding more layers of bureaucracy to the current programs. If individuals or entities knowingly violate any material standards of conduct, those individuals or System entities should be punished to the full extent of the law.

During our review of this proposed regulation and the corresponding review of our current policies and programs, it was impossible with most areas of the proposed regulation to determine exactly what FCA is seeking to accomplish with the new regulation. The entire proposed regulation is vaguely written and left open to the readers' interpretation. If this regulation is finalized as written, we are concerned the System will be left to deal with various individual interpretations of the individual FCA employees who conduct examinations of our operations. Unfortunately, we feel the proposed regulation resembles a solution looking for a problem. If there have been violations by a few institutions, it would be much more productive to appropriately address those individual circumstances than to adopt new regulations

that create problems for the majority of System institutions who have maintained a high level of compliance to Standards of Conduct and ethical business practices.

FCA raises the point that directors could be influenced to act favorably toward an entity in which they have an economic interest. We want to ensure that FCA fully understands how a System entity currently operates. Consistent with the responsibilities as addressed in FCA's "The Director's Role," our Board of Directors oversees and approves the strategic direction and Business Planning of the Association, approves the Association's bylaws (except capitalization related), approves policies and is involved with certain Borrower Rights actions. The Board has no involvement in the approval of any loans or the pricing of individual loans or portfolios. The approval and pricing of loans and participations is left to the total discretion of the CEO, who then re-delegates certain authorities to staff as appropriate. We find it very difficult to construct realistic scenarios where Directors are able to influence the pricing or approval of any loans, especially loans where they have ownership or involvement. Actions on loans involving Directors also require approval by our Funding Bank to add another layer of protection against potential undue influence by Directors. Our current Standards of Conduct Policy has adequate authority to deter application of any likely scenario of inappropriate Director influence over credit or pricing decisions. If a System entity appropriately controls the roles and responsibility of Directors and staff, the newly proposed expanded definition of Controlled Entity, Entity, Family, and Material are rendered relatively meaningless from a Director standpoint. In contrast, the application of these terms as applied to employees is already addressed with the current Standards of Conduct regulation and our corresponding Standards of Conduct Policy.

The proposed regulation raises concerns with Directors conducting business with individuals or entities who may be stockholder(s) of the Association. We currently require all Directors and staff to report the names of stockholders who they have conducted business in the past. We stress within our organization that all transactions must be at *current market rates* and the transaction must be conducted in the *ordinary course of business*. If these two requirements are met, we see absolutely no merit in requiring Directors to notify the Standards of Conduct Officer prior to their transacting the business. Since our Association has hundreds of stockholders, our Board would have to carry a stockholder registry with them at all times if they have to notify the Standards of Conduct Officer prior to conducting business (even at market rates and in the ordinary course of business), which obviously isn't practical or secure.

One of the largest obstacles Nominating Committees encounter is getting Director Candidates to run for the Board because of the perceived interference their Board position may have on their business operations. If the proposed rules incorporated in this proposed regulation are adopted, we feel strongly that the potential restrictions on Director business operations related to requiring prior approval from the Standards of Conduct Official for transactions with employees, other Directors and/or stockholders will only serve to increase the reluctance of nominee's to run for the Board. An exemption for "market rates" and "in the normal course" of business must be made for Directors and employees who are actively involved in the agricultural industry. Additionally, it is incorrect for FCA to assume that for disclosure purposes that Directors have knowledge of who and where all of their family members do business; so compliance with the proposed disclosure requirements regarding those relationships would be difficult even for individual Directors who put forth a good faith effort to comply with this requirement. Business relations are often personal to individuals, so they don't disclose their business ties or relationships to others, including to family members. The entire issue of increased disclosure, whether disclosing who the Director or nominee does business with locally or having to disclose family members' business relationships, will make the process of getting willing nominee's to run for our Board much more difficult.

The proposed regulation commentary dedicates significant space to addressing Director's ability to purchase acquired property from the Association. The current regulations are very clear and adequate. If there have been current violations in this area, the offending individuals and/or entities should be dealt with and not burden the super-majority within the System who have not had violations with additional regulations, which will not eliminate the willful violations anyway.

Major segments of the proposed regulations require the addition of Agents into the listing of impacted participants. As currently written, the definition for Agent is very vague and difficult to determine exactly who FCA considers to be an Agent and what role those individuals/entities would occupy for the Association. Being a traditional Agricultural Credit Association, we cannot identify many examples of when we would use an Agent, and even fewer examples of when those individuals (Agents) would be in a position to trigger an actual or potential Standards of Conduct violation. None of our Agents have any influence over any segment of our operations. Here again, the current Regulation concerning Agents has worked remarkably well up to this point, so we struggle to understand why FCA wants to expand the Agent definition and to potentially increase their areas of Standards of Conduct certification. Additional definition and clarification of who FCA considers to be Agents is needed before we can make a final determination in this area. As mentioned previously, the current program for dealing with Agents has worked well.

The proposed Standards of Conduct Regulation places increased importance on increased training of Directors and Employees in the area of Standards of Conduct. Our Association currently provides all Directors and employees with an annual "refresher" in this area. The old saying of "if it's not broken, don't fix it" really does apply here. Since our Association has not had any material Standards of Conduct violations in memory, we do not understand why we would be forced to add more "fixes" to a process that obviously works today.

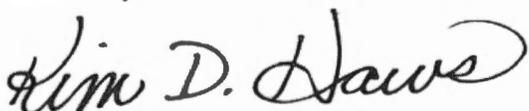
The proposed Standards of Conduct Regulation would make compliance with Standards of Conduct a component of the Association's risk assessment process, which would then be subject to internal auditing every 3 to 4 years. This is another great example of a solution looking for a problem. We would request additional clarification from FCA on exactly what they think the internal audit would periodically review? Other than reviewing the adequacy of the annual disclosures and the annual summary from the Standards of Conduct Official, both of which are already being done at our Association, what would the additional audit accomplish? Similarly, FCA would be requiring increased controls for the confidentiality of information reported to the Standards of Conduct Official. Here again, we are not aware of any past concerns or violations of confidentiality as it relates to Standards of Conduct issues. Additional clarification on the intent of the new requirement would be appreciated.

The proposed Standards of Conduct Regulation would require the Association to draft policies and procedures to identify certain types of transactions that would be considered to be in the normal course of business and as such, the transaction would not have to be reported to the Standards of Conduct Official (once the documentation has been completed). This requirement is one of the largest "over-reaches" in the proposed regulation. It would be impossible to list examples of every scenario which would be considered in the normal course of business. The proposed regulation commentary gives the example of buying diesel (even from a stockholder) as a transaction "the System institution may find that certain goods and services that are offered to the public in the ordinary course of business at a fixed price," which would mean the transaction did not raise to a conflict of interest status. If the System has to follow this direction, we will have to hire additional staff to track the program, and our Standard of Conduct Official will have a full time job addressing potential conflict issues. It is doubtful

we could find any Directors who would tolerate this infringement into their operations. As we mentioned earlier, if the Standards of Conduct Official has the threshold of reviewing transactions from both a market rate and normal course of business, we can address all actual or perceived conflict violations while significantly reducing Standards of Conduct bureaucracy that is currently being proposed.

We appreciate FCA allowing Western AgCredit the opportunity to comment on the proposed Standards of Conduct Regulation. If you review the operating performance of our Association, we believe it will be very apparent that we take the responsibility for our Standards of Conduct policy very seriously. We assume there must have been some egregious violations somewhere in the System that would cause FCA to propose the Standards of Conduct revisions. We feel very strongly that FCA, the District Banks and the local Associations currently have adequate recourse to prevent or eliminate material conflict violations. If material violations did in fact occur in the System, then whichever entity that has oversight responsibility for whoever violated the regulation, should aggressively pursue those entities and or individuals to the full extent of the law. Don't be misled; people know the difference between right and wrong. Putting increased burdens, obstacles and limitations on the System entities and their directors is the wrong approach to take. If you have any questions, please feel free to contact either of us, or our CEO Richard Weathered.

Sincerely,



Kim D. Haws  
Board Chairman



Shirelle Heninger  
Board Vice-Chairman

C: Western AgCredit Board of Directors  
Richard Weathered, President & CEO