



**Katherine A. Pace, Outside Director
Orlando, Florida**

June 20, 2014

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

**RE: Standards of Conduct and Referral of Known or Suspected Criminal Violations;
Standards of Conduct – Proposed Rule
RIN 3052-AC44**

Dear Mr. Mardock:

I have reviewed the proposed amendments to the regulations on Standards of Conduct (“SOC”) and Referral of Known or Suspected Criminal Violations (“Proposed Regulations”). System institutions’ directors must maintain high standards of honesty, integrity, impartiality and ethical conduct. However, I would like for you to consider a few areas which will be difficult to implement yet with some wording clarification can achieve the desired results.

1. Proposed Regulation §612.2140(b)(1) will require each director to report all “material” financial interests with other directors, employees, agents or borrowers of the applicable institution. Each System institution must develop policies and procedures for what constitutes “material” financial interest, and may develop policies and procedures for a “de minimis” value that would not be considered material for reporting requirements. While I appreciate the Agency’s attempt to provide flexibility by allowing institutions to establish exceptions for ongoing and ordinary course of business, this flexibility is essentially negated by §612.2165(e), which allows the Farm Credit Administration examiners to subjectively overturn such exceptions, which creates uncertainty for directors and their institutions.
2. Proposed Regulation §612.2140(b)(2) requires each System institution director to disclose the name(s) of any relative/member of the family or other person residing in the director’s household and any entity controlled by the director if the director knows or has reason to know that such individual or entity transacts business with the supervised or supervisory institution. Unfortunately, the definition of “family” includes the ambiguous term “equivalent” relationships”. Also, the definition of “controlled entity” or “entity controlled by” includes an ownership threshold of 5%. This threshold is substantially lower than what reasonably represents “control” of any entity and would be unduly burdensome for director reporting.

3. Proposed Regulation §612.2145(a)(7) prohibits a director from entering into a lending or borrowing relationship with those who have a financial relationship with the System institution. The prohibition is not limited to only situations where a director cannot knowingly become financially obligated with or on behalf of such parties. This seems to mean that any such transaction which does not receive prior approval by the Standards of Conduct Official (SOCO) will violate the regulation even if the director has no reason to know that the counterparty on the related transaction does business with the System or only finds out such relationship after the transaction is consummated. The Proposed Regulations should make clear that prior SOCO approval is only required for transactions (a) involving parties that the director knows or has reason to know are borrowers or otherwise transact business with the related System institution and (b) are in excess of the de minimis and materiality standards set by the System institution board. Without such a limitation, directors will be subjected to burdensome reporting and approval requirements which may unreasonably delay ordinary course business operations.

Thank you for the opportunity to comment on the Proposed Regulations.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Katherine A. Pace', is written over a light blue horizontal line.

Katherine A. Pace, Outside Director