



October 14, 2022

Autumn R. Agans
Deputy Director, Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Re: Response to Notice of Intent & Request for Comment – *Statement on Regulatory Burden*,
Farm Credit Administration, Agency; 12 CFR Chapter VI RIN 3052–AD55; 87 Federal
Register 43227-43228

Dear Ms. Agans:

On behalf of Farm Credit System (“FCS” or “System”)¹ institutions, Farm Credit Council (“FCC”) appreciates the opportunity to comment on the Farm Credit Administration’s (“FCA”) Statement on Regulatory Burden that was published in the *Federal Register* on July 20, 2022 (87 FR 43227).

FCC welcomes FCA’s continued review of regulations governing the System to identify and modify or eliminate, consistent with law and safety and soundness, regulations that are unnecessary, unduly burdensome, costly, or otherwise not based on law. In order to better analyze and assess the complexities of the current regulatory environment and prepare a comment on behalf of all FCS institutions, FCC assembled and coordinated a multi-disciplinary FCS Regulatory Burden Workgroup (“Workgroup”) of experts, representing FCS institutions across all four bank districts who met over the course of several months to analyze and discuss current FCA regulations, published guidance, and examination practice, including safety and soundness considerations. This endeavor included direct outreach to all FCS regulatory contacts to solicit individual institution inputs and suggestions as to any regulatory burden each such institution may have experienced or otherwise want to address. In addition, FCC also regularly apprised FCS leadership of its efforts regarding the preparation of a System comment on regulatory burden, including multiple calls with Farm Credit System regulatory professionals to solicit and garner feedback. A draft comment letter was circulated to all FCS institutions for review and final inputs prior to submitting this letter and enclosure to FCA.

The comments being made in this letter reflect one of the most comprehensive reviews of FCA’s current regulatory environment that has occurred in recent years. In addition to identifying current regulations that were deemed unnecessary, duplicative, and/or ineffective, the Workgroup went a step further and proposed various solutions or approaches, if and when possible, unless elimination of the regulatory practice was deemed the only possible solution. For these and other reasons, including the volume of comments and inputs received, and in an effort to facilitate FCA’s consideration of, and response to, each of the comments being made, the Workgroup summarized

¹ Defined terms shall have the meaning assigned to them, regardless of where the term is used in this letter, including the enclosure.

some of the comments received in a narrative format in the main body of this letter, identifying any general comments being made and any specific comments to note (as set forth immediately below), and summarized the remaining comments and inputs in a table format (as set forth in the enclosure to this letter), which allowed the Workgroup to better present a large volume of comments, along with the source of each comment (*e.g.*, regulation, published guidance), a description of some of the burden(s) expressed, and any solution(s) being proposed.

FCC's comment in response to FCA's statement on regulatory burden and request for comment, therefore, includes the general and specific comments set forth immediately below and those set forth in the enclosure to this letter, which enclosure is incorporated herein by reference.

General Comments

In accordance with FCA's request, and except where otherwise noted, FCC has not included comments on matters that are currently on the Unified Agenda or rulemakings that became effective after January 1, 2022, even though feedback on such areas was received through the process summarized above. With regard to the other comments received, the general sentiment is the agency has moved "too fast, too soon" with respect to a number of regulatory initiatives, particularly when factoring in the pandemic (and economic) operating environment under which FCS institutions (and their customers) have operated since Q1 of 2020. Specifically, since 2017, it is our estimation that FCA has approved 16 proposed rules, 12 final rules, produced 22 examination manual updates, which are often afforded equal weight as law by the agency, and issued 3 bookletters ("BL(s)").

Respectfully, the agency's pacing of both the formal notice-and-comment rulemaking process and the release of informal guidance that has been afforded equal weight in many instances has been disproportionate, challenging, administratively burdensome, and costly for FCS institutions, while such institutions have been navigating through an unprecedented pandemic, suffering through economic and labor-related challenges, including employee turnover and changes in workplace environment, and experiencing the weight and impact of turnover within the agency, which has resulted in a loss of history, operational knowledge, and consistency in approach, all while critically fulfilling the System's mission.

FCC appreciates the agency's awareness and concern pertaining to the potential disproportionate regulatory burden impact across bank districts, factoring in size, location, and complexity of the System operations impacted and its willingness to receive comments on the burdens experienced by FCS institutions and to thoughtfully consider and respond to those challenges.

In addition to the analysis that follows, FCC expects that individual System institutions will submit their own comment letters to further detail the burdens they have faced.

Specific Comments

FCS institutions provided a number of comments on the regulatory burdens they have faced or are otherwise experiencing, including comments on matters that are made subject of the Unified Agenda or rulemakings that became effective after January 1, 2022. Those comments are not

expressly set forth in this letter but bear keeping in mind in light of the burdens and costs that have been imposed, are being imposed, or that are threatened to be imposed on System institutions by such efforts in addition to the burdens identified in this letter and the burdens identified by FCS institutions in their own letters. The operating environment of System institutions is intense and challenging, requiring focused efforts to implement policy and procedural changes, along with new systems, software, vendors, training, and other operational changes. The number, amount, and timing of proposed and approved changes all contribute to the considerations to keep in mind as new guidance is (or may be) developed. Some rule or guidance changes require policy and procedural updates (and related training) at a minimum, while other regulatory or guidance changes require more comprehensive solutions, including complete system overhauls, all at a cost to the cooperative; and, as soon as one operational update is implemented, new guidance may require further or other changes that may waste the efforts made or impose additional costs and burdens for FCS institutions to absorb. Some associations have found themselves unable to maintain operational efficiencies as a result of the regulatory burdens they have faced or anticipate facing in the future.

The burdens of change are not always outweighed or justified by the actual benefits experienced, if any. The cooperative structure and mission of the System must be kept in mind with any new rule or guidance changes or burdens expressed by the FCS institutions who are on the frontline of carrying out the Farm Credit mission established by Congress, on a cooperative basis, on behalf of (and with) the stockholder members they serve. Unnecessary regulatory burden adds costs to Farm Credit cooperatives and, ultimately, those costs are borne by Farm Credit's customer/owners we serve.

For these and other reasons, FCA made a policy commitment of: (i) eliminating and not imposing unnecessary regulations that impair the ability of System institutions to accomplish their mission; and (ii) not imposing regulations that are unduly burdensome, costly, or not based on the law. *See, e.g.,* Policy Statement, FCA-PS-59, Regulatory Philosophy, Eff. Date July 8, 2011; *see also* Farm Credit Act of 1971 (the "Act"), as amended; 12 USC §§ 2001, *et seq.* Many of the changes that have occurred since the pandemic and/or that may be proposed in the future are notably inconsistent with this policy statement and may also exceed the scope and authority of the agency.

In proceeding with these thoughts, it is important to acknowledge and express the appreciation FCS institutions have for some of the guidance that FCA has made available to the System, as such guidance can help provide context or examples with regard to the Act or FCA regulations. However, FCA-published guidance must relate to, and be limited by, the Act and FCA regulation and cannot serve as the basis for a Matter Requiring Attention ("MRA") during examination, which has happened from time to time. *See, e.g.,* 12 CFR § 262, Appendix A; *see also* Fed. Register Vol. 86, No. 66 (Apr. 8, 2021); Interagency Statement Clarifying the Role of Supervisory Guidance (Sept. 11, 2018).

A primary goal for examinations is compliance with the Act and FCA regulations promulgated under the Act. System institutions can more readily achieve compliance if: (i) examinations were limited to, and based on, the Act and FCA regulation; and (ii) examination manual guidance was cumulative of the guidance published by FCA through the effective date of the manual. Specifically, since FCA-published guidance should relate to, and be based on, the Act and FCA

regulation, any guidance that helps promote compliance with those authorities (without exceeding their scope), whether set forth in an informational memorandum (“IM”), BL, or policy, should be **summarized and cited** in the examination manual, so System institutions can confirm the scope of guidance going into an examination rather than having to review information spanning years (if not decades) and having to guess which guidance was still deemed relevant and which guidance was no longer actively being considered. More specifically put, the examination manual should be a one-stop resource for System institutions. System institutions should be able to rely upon such guidance to know whether they are in compliance, which would help promote transparency and consistency in the examination process (on both sides), allow for better preparation and communication during the examination process, and reduce the likelihood of regulation by examination (and variances in interpretation). Examinations should not be a surprise environment.

Further, an MRA should only be issued for a violation of the Act or FCA regulation promulgated under the Act and should not be issued for perceived violations of examination guidance alone. A regulator is without authority to enforce guidance or best practices (even if the intent behind the best practice is good). A regulator can only enforce compliance with relevant statutes and the regulations promulgated thereunder (*e.g.*, for FCS institutions, the Act and FCA regulations promulgated thereunder), after notice and an opportunity to comment have been afforded and all conditions precedent have been satisfied. A regulator can issue recommendations or comments based on published guidance or best practices, but such cannot serve as the basis for an MRA. Other regulators have addressed this issue and have confirmed the limits of MRAs to be issued for such reasons. *See, e.g.*, 12 CFR § 262, Appendix A; see also Fed. Register Vol. 86, No. 66 (Apr. 8, 2021); Interagency Statement Clarifying the Role of Supervisory Guidance (Sept. 11, 2018). Examining System institutions, and issuing MRAs based on published guidance alone, exceeds the scope of a regulator’s authority and results in a subjective examination, giving rise to inconsistent System results, lack of preparedness, unnecessary cost, impairment of relationships between regulator and System institutions, unreliable outcomes, and unenforceable results.

For example, FCA published guidance on Model Risk Management (“MRM”) without citing, sourcing, or referencing the Act or FCA regulation. Within months of issuing the guidance, System institutions were examined and MRAs were issued for not complying with such guidance, even though no cite to the Act or FCA regulation had been made and, more importantly, even though MRM is not required by the Act or FCA regulation. While MRM may be a good idea, without proper legal support, and without such guidance going through a proper, and legally required, notice and comment period, System institutions were not afforded an opportunity to comment on, prepare for, or respond to the guidance, and any changes required by MRM imposed costs and burdens that were not anticipated. Because of the immediacy of the guidance and lack of an opportunity to provide notice and comment, System institutions could not have anticipated the enforcement of the guidance (as it is not legally required) and could not have had appropriate time to review and consider such guidance even if they wanted to follow such guidance. Without proper vetting, System institutions do not know whether compliance is required or if and when they have satisfied the guidance – *i.e.*, when they have reached the bottom. The law affords protections to regulated institutions; such protections were not satisfied with regard to MRM and other guidance that has been issued, and under which System institutions have been examined, that are not required by the Act and FCA regulation (as regulations should be limited by, and based on, the Act). Thus, the regulator should not examine against, and/or issue MRAs under, such guidance

and the regulator should not combine recommendations and MRAs and treat them alike; they are distinguishable and serve separate purposes.

FCS institutions appreciate the need for safety and soundness in the System and acknowledge the importance of the regulator's role in helping to maintain safety and soundness. However, the scope of enforcement must necessarily be limited to the Act and FCA regulations promulgated thereunder, and distinctions should be made, during and as a result of examinations, between MRAs and recommendations, *e.g.* System institutions should also be able to more readily identify the guidance applicable to (and enforceable against) them by being able to look to one of three sources for compliance: (i) the Act; (ii) FCA regulation; and (iii) examination manual that reflects a culmination of all FCA-published guidance currently in effect and applicable to the System (*e.g.*, a summary of, with cites to, all IMs, BLs, and policies), without exceeding the scope of the Act and FCA regulation; such examination manual guidance should also cite to the Act and FCA regulation so that System institutions can better ascertain and confirm compliance and participate in communications with FCA regarding same. It would also be helpful for FCA to allow System institutions to access prior examination manual and other guidance to redline or compare same and/or for FCA to issue redlines or comparison versions for such purposes.

Conclusion

We appreciate the opportunity to comment on the agency's Statement of Regulatory Burden and to present FCS institutions' concerns to FCA for its consideration. We urge the agency to move forward with its consideration of the burdens identified and the recommendations being made in this comment as soon as the agency has completed its review and afford the relief requested by FCS institutions. We trust that our comments, as well as those comments submitted by individual System institutions, will assist FCA in such efforts.

If you have any questions, please do not hesitate to contact me.

Sincerely,



Robert Paul Boone III
Senior Vice President & General Counsel
Farm Credit Council

Enclosure

	Source	Regulation	Regulation Description	Burden(s)	Additional Comment(s)/Proposed Solution(s)
1	12 CFR Part 611	12 CFR 611.1155	Approval of Equity Investments in UBEs	The detailed requirements of the information that must be provided to FCA for its approval before a UBE can be created is administratively burdensome, time consuming, and thus expensive to System institutions. The process for creating and seeking approval for UBEs to protect System institutions in their administration of acquired assets is administratively burdensome and should be simplified.	The regulation should provide for the requirements for the appropriate use of UBEs but should not impose notification and approval requirements prior to use. Compliance with this regulation can be determined during the examination process.
2	12 CFR Part 611	12 CFR 611.326	Floor Nominations for Open Farm Credit Bank and Association Director Positions	The requirement that associations must permit voting stockholders to make floor nominations for director positions circumvents the nominating committee's process and creates inefficiencies in the development of the association's election materials. The same requirement is not imposed on banks. Banks are only required to allow floor nominations if they are permitted by a bank's election policies and procedures.	The floor nomination process should be optional or discretionary for associations in the same manner as it is for banks. The recommendation is to allow associations to decide whether to allow for stockholder floor nominations. This would be governed by election policies and procedures in the same manner as is permitted currently for banks.
3	12 CFR Part 615	12 CFR 615.5250	Disclosure of Requirements for Sales of Borrower Stock	This regulation requires that System institutions provide a prospective borrower with the annual report, the most recent quarterly report, if filed more recently than the annual report, the capitalization bylaws, and a written description of the terms and conditions under which the equity is issued, prior to closing. 12 CFR 609.920 permits System institutions to provide the disclosures electronically, confirms that System institutions may interpret the Act and FCA regulations "broadly to allow electronic transmissions, communications, records, and submission, as provided by E-SIGN," 12 CFR 609.920(b), and the E-SIGN Act "preempts most statutes and regulations, including the Act and [FCA regulations]." 12 CFR 609.920(a). And, neither the Act nor FCA regulation provides how long prior to closing the disclosures must be provided. Providing the disclosures prior to consummation of the loan documents (even on the same day and within the same sitting) is prior to closing, and certain loans (e.g., personal property or equipment loans, point-of-sale financing) must be closed efficiently in order to satisfy the needs of the customer or operation, support the mission, and/or remain competitive. There has been an inconsistency in the System on the examination (interpretation) of "prior to closing" and on the delivery requirements associated with these disclosures. The inconsistency in examination (interpretation) and approach exceed not only the Act and FCA regulation but also the E-SIGN Act, which preempts such the Act and FCA regulation. In some of the examinations performed or interpretations being made, words would have to be read into the E-SIGN Act, the Act, and/or FCA regulation (e.g., a System institution must provide the disclosures at least 24 hours in advance of closing or by mail or paper form) to support the positions being taken. Such interpretations and approaches not only exceed the regulator's authority, which is impermissible, but also impose administrative costs and burdens on System institutions, threaten their	System institutions should be able to rely on the language of the regulation, 12 CFR 609.920, and the E-SIGN Act with regard to delivery and should not have to satisfy requirements that are not expressly provided by law. System institutions should be able to deliver the disclosures electronically and/or provide instructions to the customer on how the disclosures may be accessed on the System institution's website, to the extent not prohibited by law. Similarly, System institutions should be able to provide disclosures to customers, when required, at any time before the final documents are signed and the loan or transaction is consummated and should not have to provide the disclosures a certain number of hours or days prior to closing when such requirement is not expressly contained within the Act or FCA regulation. The term "closing" is generally construed as the moment a transaction is consummated; the point in time when all necessary documents have been signed and the transaction is completed. "Prior to closing" has been construed to mean prior to signing the last of the documents necessary to consummate or complete the transaction (e.g., the last of the loan documents, if those are the last documents to be signed before funding or before title is transferred). The disclosures required to be provided under this regulation, therefore, could be provided at the time of closing but prior to signing the last of the loan documents, e.g., before funding and/or title transfer. These notions are consistent with the language of the regulation and the E-SIGN Act, as applicable to the burden(s) described, industry standard practices, and with other federal laws and guidance and would provide a more feasible option and approach for loan closings, especially point-of-sale financing, which allows the System to remain competitive with certain other lenders or products and

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				competitiveness in the market, fail to support the mission, do not guarantee receipt prior to closing, do not comport with preferred methods of delivery for most customers, and are inconsistent with delivery methods of other financial institutions that are similarly situated.	avoid the challenges otherwise presented by providing such information prior to closing under point-of-sale financing circumstances involving dealers/third-parties.
4	12 CFR Part 620	12 CFR 620.2	Preparing and Filing Reports	This regulation permits System institutions to provide the reports made subject of this part electronically; however, the regulation requires System institutions to obtain “shareholder agreement” in order to do so. <i>See</i> 12 CFR 620.2(c). This language effectively imposes an “opt in” requirement (a hurdle) in order for System institutions and their customers to benefit from electronic delivery, 12 CFR 609, and E-SIGN Act, rather than an “opt out” requirement. 12 CFR 609.920 confirms that System institutions may interpret the Act and FCA regulations “broadly to allow electronic transmissions, communications, records, and submission, as provided by E-SIGN,” 12 CFR 609.920(b), and the E-SIGN Act “preempts most statutes and regulations, including the Act and [FCA regulations].” 12 CFR 609.920(a). 12 CFR 620.2, therefore, seems to impose a hurdle on, in most instances, the use of electronic communications in System institution business, contrary to the purpose and intent of 12 CFR 609.920 and the E-SIGN Act, presents a significant financial, administrative, and logistical burden to System institutions, without guaranteeing better receipt of, or access to, the report by shareholders, is inconsistent with other FCA regulations, which permit website access or notice (<i>e.g.</i> , 12 CFR 620.15), is not in alignment with shareholders’ preferred method of communication, which is electronic access or delivery in most circumstances, and does not better serve or support the cooperative. System institutions must operate efficiently and in the best interest of the cooperative. Many, if not most, businesses operate, and engage in, electronic commerce, with less reliance on paper due to preference, cost, administrative or logistical burdens, and delays associated with mail, and not all System institutions have shareholder agreements with all customers and/or may not be able to secure shareholder agreements from all customers before reports are required to be provided. Importantly, System institutions provide ready access to reports on their websites, which are accessible by all, and paper copies may also be available in branch offices, at customer events, and upon request.	In order to better guarantee the ability of a customer to more timely receive and review the correct reports and other possible information, System institutions should be able to offer shareholders the option of viewing the reports on their website and/or to receive such information electronically rather than impose an “opt in” requirement (hurdle) for electronic delivery. Most borrowers have internet access through their businesses, homes, or other venues. If a customer wanted to receive a paper copy of a report, then the customer could “opt out” of website access or electronic delivery (rather than “opt in” for electronic delivery), request that a paper copy be provided, or pick one up at a branch location or customer event, <i>e.g.</i> , to the extent not prohibited by law. The customer may acknowledge the options for access or delivery and/or make its election in writing, and such acknowledgment and/or election can be maintained in the file. Permitting electronic access or delivery of the reports with an “opt out” requirement with regard to website access or electronic delivery, and not an “opt in” requirement for electronic delivery, would comport with the purpose and intent of 12 CFR 609.920 and the E-SIGN Act and would relieve significant administrative and cost burdens experienced by System institutions, while still allowing for delivery of, or access to, information by paper means for those who prefer it. Importantly, providing website access or electronic delivery would be an equally, if not more, effective and prudent manner of delivery or means of access for most customers and would ensure that the customer received the latest or desired reports when desired. These notions are consistent with industry standard practices and with other federal laws and guidance, including the manner of delivering reports to FCA and website access and notice permissible under 12 CFR 620.15.
5	12 CFR Part 620	12 CFR 620.4	Preparing and Providing the Annual Report	This regulation requires System institutions to provide, within 90 calendar days of the end of its fiscal year, an annual report substantively identical to the copy of the report sent to FCA under subparagraph (a)(1) of this regulation. System institutions are permitted to provide the report made subject of this part electronically; however, System institutions are required to obtain “shareholder agreement” in order to do so. <i>See</i> 12 CFR 620.2(c). Requiring that System institutions mail a hard copy of the report to shareholders unless they first “opt in” to electronic delivery runs afoul of, or presents a hurdle to, 12 CFR 609.920 and the E-SIGN Act in most instances, presents a significant financial, administrative, and logistical burden to System institutions, without	In order to better guarantee the ability of a customer to more timely receive and review the correct reports and other possible information, System institutions should be able to offer customers the option of viewing the reports on their website and/or to receive such information electronically rather than impose an “opt in” requirement (hurdle) for electronic delivery. Most borrowers have internet access through their businesses, homes, or other venues. If a customer wanted to receive a paper copy of a report, then the customer could “opt out” of website access or electronic delivery (rather than “opt in” for electronic delivery), request that a paper copy be provided, or pick one up at a branch location

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				guaranteeing better receipt of, or access to, the report by shareholders, is inconsistent with other FCA regulations, which permit website access or notice (e.g., 12 CFR 620.15), is not in alignment with shareholders' preferred method of communication, which is electronic access or delivery in most circumstances, and does not better serve or support the cooperative. System institutions must operate efficiently and in the best interest of the cooperative. Many, if not most, businesses operate, and engage in, electronic commerce, with less reliance on paper due to preference, cost, administrative or logistical burdens, and delays associated with mail, and not all System institutions have shareholder agreements with all customers and/or may not be able to secure shareholder agreements from all customers before reports are required to be provided. Importantly, System institutions provide ready access to reports on their websites, which are accessible by all, and paper copies may also be available in branch offices, at customer events, and upon request.	or customer event, e.g., to the extent not prohibited by law. The customer may acknowledge the options for access or delivery and/or make its election in writing, and such acknowledgment and/or election can be maintained in the file. Permitting electronic access or delivery of the reports with an "opt out" requirement with regard to website access or electronic delivery, and not an "opt in" requirement for electronic delivery, would comport with the purpose and intent of 12 CFR 609.920 and the E-SIGN Act and would relieve significant administrative and cost burdens experienced by System institutions, while still allowing for delivery of, or access to, information by paper means for those who prefer it. Importantly, providing website access or electronic delivery would be an equally, if not more, effective and prudent manner of delivery or means of access for most customers and would ensure that the customer received the latest or desired reports when desired. These notions are consistent with industry standard practices and with other federal laws and guidance, including the manner of delivering reports to FCA and website access and notice permissible under 12 CFR 620.15.
6	12 CFR Part 620	12 CFR 620.5	Contents of the Annual Report to Shareholders	The requirement to include permanent capital ratio in the annual report is administratively burdensome and costly, is not relied upon by FCA or other key stakeholders, and does not provide valuable information on the System institution.	The regulations should be modified to no longer require the inclusion of permanent capital ratio in the annual report.
7	12 CFR Part 620	12 CFR 620.6	Disclosures in the Annual Report to Shareholders relating to Directors and Senior Officers	As identified in the 2017 FCC commentary, the requirements of 12 CFR 620.6, and in particular to the provisions relating to retirement account information policies, are not only unduly burdensome and costly, but also confusing if not misleading to stockholders.	The regulation should be modified to no longer require the inclusion of retirement account information policies in the annual report.
8	12 CFR Part 620	12 CFR 620.20	Preparing and Distributing the Information Statement	The regulation requires that System institutions post their AMIS on their website "[i]n addition to the mailed AMIS." The requirement that electronic publication and notification is to be used as an additional, not alternative, method of communication is burdensome and expensive. Providing print communications to all stockholders provides a substantial logistical and financial burden on System institutions and often does not align with the communication method preferred by many stockholders, which is electronic.	System institutions should be able to offer customers the option of viewing the information statement on their website and/or to receive such information electronically. Most borrowers have internet access through their businesses, homes, or other venues. If a customer wanted to receive a paper copy of the information statement, then the customer could "opt out" of website access or electronic delivery (rather than "opt in" for electronic delivery), request that a paper copy be provided, or pick one up at a branch location or customer event, e.g. The customer may acknowledge the options for access or delivery and/or make its election in writing, and such acknowledgment and/or election can be maintained in the file. Permitting electronic access or delivery of the information statement with an "opt out" requirement with regard to website access or electronic delivery, and not an "opt in" requirement for electronic delivery, would relieve significant administrative and cost burdens experienced by System institutions, while still allowing for delivery of, or access to, information by paper means for those who prefer it. These notions are consistent with industry standard practices and with other

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					federal laws and guidance, including the manner of delivering the information statement to FCA.
9	12 CFR Part 620	12 CFR 620.30	Audit Committees	The regulation requires all external auditors to report directly to the Audit Committee. The requirement of a secondary “independent” individual within the organization to interject themselves in between an external auditor and the Audit Committee undermines the nature and intent of FCA regulation and creates an undue financial burden on the System institution by adding additional staffing costs and time commitment. The requirement by FCA for the creation of an Audit Coordinator/CAE role when smaller System institutions may outsource all reviews and audits to an external third-party is a financial and managerial burden that detracts from the value provided to all stakeholders in that System institution. In general, these System institutions already incur significant expense to outsource audit engagements to reputable third-party accounting firms, and outsourcing for an internal audit position differs from having an external auditor. In addition, the banks are already required to perform significant due diligence over the effectiveness of the System institution’s ICFR program, which minimizes the risk of a material misstatement of the financial statements. Further, FCA’s directive to assign an HR person, or other administrative assistant-type role, with the responsibilities of “audit coordinating,” provides little to no benefit to the stakeholders of a System institution. Additionally, 12 CFR 619.9270(e) requires all external auditors to be independent of the System institution to be audited, making the Audit Coordinator Role a redundancy. The need for additional staff to meet this requirement raises the “cost of doing business” especially for smaller System institutions, and ultimately reduces the available earnings that could have been used to pay patronage or support YBS initiatives in the communities, among other things.	FCA should consider implementing a risk-based methodology for compliance with their regulatory requirements.
10	12 CFR Part 621	12 CFR 621.10	Monitoring of Performance Categories and Other Property Owned	Nonaccrual reporting requirements are significantly greater under FCA call reports than other regulators. The costs associated with tracking nonaccruals and modifying loan accounting systems to meet FCA requirements are overly burdensome. The nonaccrual reporting requirements can cost in excess of \$1,000,000.00 in custom code and personnel costs to customize the core functionality of a premier loan accounting service provider’s software. This is the same software as others are using in the System, which means the cost to the System overall is considerable. Accrual loan roll forward (RC-K) is overly burdensome and inconsistent with prudential regulator reporting requirements.	FCA should modify its nonaccrual reporting requirements to require loans to be reported on amortized cost basis only and to otherwise align with other financial industry regulators.
11	BL	BL-073	Criminal Referral Guidance	BL-073 “Criminal Referral Guidance” has increased the cost, complexity, and burden of filing criminal referrals under 12 CFR 612 subpart B. It requires System institutions to file a criminal referral if a borrower has misstated financial statements or converted collateral valued at more than \$5,000.00 regardless of intent, which is required in order to support a known or suspected violation of criminal law. This requirement does not provide latitude for an analysis of intent or a factual determination as to whether this was an isolated	BL-073 should be modified to the extent it: (i) does not fully track or comport with the Act or FCA regulation; or (ii) suggests or otherwise seems to require the filing of a criminal referral where the intent necessary to support a known or suspected violation of federal criminal statute is not supportable or otherwise has not been shown, including where the facts show that a misstated financial statement or collateral conversion was inadvertent and/or where the facts do not support a loss

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				<p>incident or mistake. As a result, institutions are required to report more incidents that do not constitute known or suspected violations of criminal law, which may require unnecessary, misleading, or otherwise inaccurate reports, but may also require separation of employment or other relationships unnecessarily and which may not warrant the safe harbor protections afforded under law. Further, reporting incidents prophylactically and without satisfying all of the requirements of 12 CFR 612 subpart B is not legally required, may be impermissible, would increase the administrative and cost burdens on System institutions, would reduce the impact of any event that may actually warrant the attention of the authorities (<i>e.g.</i>, the FBI and U.S. Attorney’s Office), would waste the resources of governmental agencies who are charged with receiving and reviewing such reports, and may impair a System institution’s reputation and credibility with federal and local authorities. Further, while BL-073 does provide some clarity on 12 CFR 612.2301(a)(4) and the minimum amount to consider with regard to reportable activity that involves persons other than insiders who fall within 12 CFR 612.2301(a)(1) (<i>e.g.</i>, \$5,000.00), BL-073 does not fully comport with (or track) the Act or FCA regulation. Other regulatory burdens are also caused by FCA’s requirement to use its portal to file criminal referrals. The portal is an awkward tool that requires multiple entries of the same information. The portal does not readily allow the editing of a completed draft within the portal and does not consistently (if ever) allow for the linking of a supplemental referral to an original or initial referral. Relatedly, a criminal referral cannot be subsequently amended after it has been submitted through the portal, which may necessitate the filing of a new referral through the portal in order to update or append any additional information. Such steps result in administrative costs and inefficient uses of System resources.</p>	<p>from any such activity (other than an activity that may involve 12 CFR 612.2301(a)(1)). Further, rather than requiring the use of its portal, FCA should permit criminal referrals to be made to a specific criminal referral email address at FCA.</p>
12	EM	EM-31.1 (09-24-21)	Board & Management Operations, Corporate Governance	<p>All Model Risk Management (“MRM”) guidance is wholly-contained within the examination manual provided to regulatory examiners with no supporting references as to the source of the guidance (<i>e.g.</i>, regulation). Adhering to an agreed-upon standard with no regulatory backing is challenging and burdensome to staff who are charged with trying to determine what level of MRM is appropriate. Specifically, FCA receives authority through the Act, <i>e.g.</i>, and has authority to proceed under and with regard to the Act and its promulgating regulations. Changes to the regulations require a notice and comment period. Examination manuals provide guidance on the scope of the review (examination) to be performed by the regulator under its authority and allow for a more transparent examination, where the System institution (<i>e.g.</i>, banks and associations) and the examiner are both able to prepare for and participate in the examination based on their equal access to, and knowledge of, the Act and FCA regulations. The examination manual guidance on MRM was not borne out of the Act or any cited or referenced FCA regulation. The basis (and boundaries) of MRM, therefore, are unknown. The same can be said of Enterprise Risk Management (ERM). While MRM and ERM may be good</p>	<p>The regulator should: (i) recommend System institutions develop MRM and ERM guidance but should not require it let alone impose MRAs to System institutions unless the Act and FCA regulations require such guidance to be developed; and (ii) consider providing supplemental guidance for MRM and ERM to the extent MRM and ERM are recommended practices for safety and soundness, <i>e.g.</i>; and work directly with System institutions to develop MRM and ERM programs appropriate for their institution rather than continuing to apply higher expectations for institutions through the use of MRAs in reports of examination.</p>

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				<p>ideas in theory and may support safety and soundness, the parameters are difficult to ascertain, were not subject to a notice and comment period, and would (and do) not apply equally to all System institutions of various sizes, with different funding banks, and with varying support and service structures. Without a legal basis in the Act, and without a corresponding legal basis in FCA regulation, System institutions cannot know what level of compliance is required or expected and what level of compliance is legally required. And, critically, without a legal basis in the Act, and without a corresponding legal basis in FCA regulation, the regulator is without a legal basis to act or know where its boundaries lie. Accordingly, issuing Matters Requiring Attention (“MRAs”) in examinations in the same year, let alone the same quarter, is inherently unreasonable, unfair, and without legal support and is subject to examination that is subjective and malleable. MRAs may only be issued on violations or non-compliance with the Act and FCA regulation or non-compliance with enforcement orders or other enforceable conditions. MRAs may not be issued based on guidance published by the regulator, that is not required by the Act or FCA regulation, that has not been subjected to a notice and comment period, and that has not even been reviewed by the Board. The use of MRAs also sends the wrong message to boards of directors regarding management’s compliance when FCA’s expectations are raised with each subsequent examination and impose unnecessary administrative and other costs on System institutions for which relief is needed.</p> <p>The Federal Reserve System previously confirmed the scope of authority and the ability to issue in MRAs, and interagency guidance was issued with regard to same. <i>See, e.g.</i>, 12 CFR § 262, Appendix A; see also Fed. Register Vol. 86, No. 66 (Apr. 8, 2021); Interagency Statement Clarifying the Role of Supervisory Guidance (Sept. 11, 2018). Without a congressional or regulatory-root, regulation by examination will result, which such examination is impermissible, inherently unfair, and does not promote compliance; System institutions do not know when they have achieved compliance because there is no way to test it. The first opportunity to test the guidance would be during examination, which is improper and beyond the authority of the regulator.</p>	
13	EM	EM-31.3	Audit and Review Programs	<p>The Audit and Review Programs section of the examination manual imposes cost and administrative burdens on System institutions associated with the creation of an Audit Coordinator position. For example, the requirement to have an Audit Coordinator/CAE, <i>e.g.</i>, creates unnecessary costs at smaller System institutions with limited benefits. In general, these System institutions already incur significant expense to outsource audit engagements to reputable third-party accounting firms. For a smaller System institution, this may not be a full-time position, and such institutions may be required to move such responsibilities to an employee who is already employed with other duties on a full-time basis. In addition, banks are already required to perform significant due diligence over the effectiveness of the System institution’s ICFR program,</p>	<p>The regulator should consider implementing a risk-based methodology for compliance with regulatory requirements.</p>

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				which minimizes the risk of a material misstatement of the financial statements. Further, FCA’s directive to assign an HR person, or other administrative assistant-type role with the responsibilities of “audit coordinating” provides zero benefit to the stakeholders of a System institution. System institutions also have been asked to expand the audit universe and audit risk assessment based on this same section of the examination manual. Smaller System institutions are being required to develop and maintain an audit plan with the sophistication of a much larger institution, when their existing plan may be sufficiently robust for their size.	
14	EM	EM-31.7	IT Service Provider	System institutions who rely upon their funding banks to provide IT and other vendor-management services should not be held to the same level of due diligence, vendor management, and audit requirements as the funding banks or other System institutions who are in direct privity with the vendor or other third-party service provider. The cost of duplicating or otherwise attempting to recreate the due diligence performed by the funding bank is disproportionate to the risk associated with such relationships if the funding bank has satisfied all of the requirements and practices associated with the engagement or retention, and many System institutions are not in a position to receive or otherwise require information from the vendor or third-party service provider in such circumstances. When the funding bank directly engages with vendors or other third-party service providers for the benefit of, and/or otherwise makes certain services available to, associations, such services are more appropriately characterized as a captive from the perspective of associations, and such associations are unable to complete or otherwise satisfy due diligence, vendor management, and/or audit requirements as they otherwise would. As long as funding banks have completed vendor management and due diligence requirements appropriate for the relationship at hand, associations should not be required to duplicate or otherwise complete such requirements, as well, and such associations may not be able to do so	While each System institution is responsible for its own data security and integrity of its IT-related systems, there should be a much lower burden of audit and regulatory oversight within districts where the funding bank provides IT as a service to its System institutions (as compared to districts where System institutions have those services in-house or contract with a non-System third-party). The burden of regulatory compliance and security should be evaluated at the bank level, and the burden of verification and compliance should be held at the System institution level when System institutions are implementing all required best practices of the bank as a service provider.
15	IM	IM (10-13-06)	Electronic Filing of Part 620 Regulatory Reports	This IM requires each System institution to maintain a dated and signed hard copy of regulatory reports filed in compliance with 12 CFR 620. The IM exceeds the requirements of the Act and FCA regulation and imposes costs on System institutions beyond those imposed by law. No reasonable basis exists for maintaining paper copies of System institution records, and other applicable law (e.g., federal rules of evidence) does not require same.	System institutions should be able to maintain documentation in electronic format, consistent with prudent document retention and data privacy practices.
16	IM	IM (03-14-11)	Accounting and Disclosure of Troubled Debt Restructures, as Required by GAAP	Generally Accepted Accounting Principles (“GAAP”) requirements have changed, resulting in the elimination of “Troubled Debt Restructurings” (“TDRs”). As a result, the maintenance of current requirements for TDRs is operationally burdensome and immaterial to the financial statements and credit quality of System institutions. Retaining the legacy reporting requirements for TDRs will require System institutions to maintain two operational and reporting processes for TDRs and modifications under the updated reporting requirements. The legacy process is highly manual and subjective, requiring	References to TDRs and “Accruing TDRs” in FCA regulations should be eliminated in order to conform with GAAP. Further, and more specifically, the regulator should limit the definition of high-risk loans to nonaccrual loans and eliminate the inclusion of accruing TDRs and accruing 90 days past due loans. All loans remaining in accruing status must be adequately secured and in the process of collection. Frequently, accruing 90 days past due loans are fully guaranteed, justifying the accrual status of the loan. Additionally, due to the low credit risk of

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				extensive documentation. The revised GAAP allows for systematic solutions and automated processes for reporting in a more efficient manner. Further, many System institutions plan to repurpose existing fields in loan accounting systems and databases/data warehouses to achieve the new reporting requirements. If FCA retains the legacy reporting requirements for TDRs, then the repurposing of data fields will not be possible and it will, therefore, be more costly to implement an automated and well-controlled solution for modification disclosures under the required GAAP implementation deadline of Q1 2023.	accruing 90 days past due and the lack of a GAAP requirement to track TDRs, a majority of System institutions have determined traditional loans that will be individually analyzed under Current Expected Credit Loss (CECL) framework will be limited to nonaccrual loans. For at least these reasons, FCA should eliminate references to “accruing restructured” and “formally restructured” loans, as well as references to superseded GAAP, in all FCA regulations, IMs, BLs, examination manuals, FAQs and other FCA-published guidance.
17	IM	IM (06-01-16)	Revised Guidelines on Submission of Proposals to Merge or Consolidate Farm Credit System Banks and Merge or Consolidate Farm Credit System Associations	The practical merger process adopted by FCA is inconsistent with FCA regulations and guidance provided. For example, in practice, FCA’s review period of merger applications is far exceeding the regulatory 60-day period. FCA routinely asks for additional items for review that are neither listed in FCA regulations nor the corresponding informational memoranda. Increasingly, FCA is requiring entities to address issues unrelated to the safety and soundness of the proposed merged entity (<i>e.g.</i> , climate-related risk assessments) in their disclosure materials. Additionally, there appears to be very little practical consideration given to the specific circumstances of each merger when structuring the merger conditions. For example, often the conditions of merger are the same regardless of the size of the merging institutions, whether the particular merger being reviewed would have a material financial impact or any other factors related to the specific proposed merger. Finally, the costs associated with sending required disclosures and information in hard copy form by mail to stockholders, which often is hundreds of pages in length, contains reports and information that many stockholders have previously received, and which may be stale by the time disclosures are sent to shareholders, is excessive and the process is impractical.	The merger review process should be modified to create two separate merger tracks for: (i) non-like-kind mergers, which would be a more streamlined process intended to limit costs associated with the proposed merger and reduce the applicable conditions (<i>e.g.</i> , no integrated audit requirement); and (ii) like-kind mergers. Additionally, System institutions should be able to offer to deliver disclosures and reports to stockholders electronically unless delivery in hard copy form is requested.
18	Memo	Memo to Chair, Board of Directors, Chief Executive Officer of Each Farm Credit System Institution (06-28-22)	Rescission, renewal, and review of System institution requests to utilize excess capacity	The guidance provided by FCA for allowance of System institutions to engage in activities that would otherwise be impermissible (<i>e.g.</i> , working with brokers) is vague. The guidance is short on criteria for acceptable thresholds, such as levels of participation (percentages that go through broker channels). The administrative burden to go through the approval process for System institutions is not necessary and leaves too much room for uneven enforcement. FCA’s desire to ensure that excess capacity is being monitored and maintained in accordance with legal requirements is understandable, and establishing a reporting and/or reapplication process may be reasonable under the circumstances. However, the revocation of any authority on which a System institution relied or that it was afforded in connection with excess capacity was an unnecessary requirement. Neither the Act nor any related FCA regulation requires the prior approval of the regulator for System institutions in these circumstances. Accordingly, revocation of authority, permission, or reliance and the requirement that System institutions apply for authority is not borne in law and has not been subject to a notice and comment period. The regulator	The regulator should withdraw or amend its prior guidance and conform to the legal authorities it has to act in this space.

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				appears to have exceeded its authority in making this request, in issuing a revocation, and in imposing this requirement.	
19	UCR	Uniform Call Report Instructions for Preparing the Report of Financial Condition and Performance Required by the Farm Credit Administration	Call Report Instructions; RC-K, Accrual Loan Activity Reconciliation for Loans, Leases, Notes Receivable (excluding Intra-System Loan), and Sales Contracts	Neither the Act nor FCA regulations require loans and leases reported on Schedule RC, line item 6, to be reported on an amortized cost basis and fair value basis and for those values or amounts to agree. As of today, the call report utilizes recorded investment, which is consistent with the majority of the loan footnote in the shareholder's report. With the implementation of CECL on January 1, 2023, disclosures in the shareholder's report will be changed from recorded investment to amortized cost. Any modification to the definition of loan balance creates confusion and additional reporting costs to meet differing loan definitions with limited to zero benefit. <i>See, e.g.,</i> 12 CFR 615.5132; 12 CFR 615.5140. Further, the need for system configurations and customizations that differ from standard offerings as systems are designed to meet the needs of commercial banks who do not have this requirement.	FCA should modify its call report instructions to require loans to be reported on amortized cost basis only or to be consistent with what is included in the shareholder's report, among other things, to avoid having to report different amounts. The difference in reporting amortized cost, as opposed to recorded investment, is negligible in value.
20	UCR	Uniform Call Report Instructions for Preparing the Report of Financial Condition and Performance Required by the Farm Credit Administration	Call Report Instructions; RC-K, Accrual Loan Activity Reconciliation for Loans, Leases, Notes Receivable (excluding Intra-System Loan), and Sales Contracts	Accrual loan roll forward (RC-K) is overly burdensome and inconsistent with prudential regulator reporting requirements. Any modifications to the definition of loan balance creates confusion and additional reporting costs to meet differing loan definitions with limited to zero benefit.	FCA should modify its call report instructions to require loans to be reported on amortized cost basis only or to be consistent with what is included in the shareholder's report, among other things, to avoid having to report different amounts. The difference in reporting amortized cost, as opposed to recorded investment, is negligible in value.
	Source	Guidance	Guidance Description	Burden(s)	Comment(s)
21	Farm Credit Act, CFR, and FCA-Published Guidance	FCA-Published Guidance	Miscellaneous	FCA-published guidance is appreciated and can help provide context or examples with regard to the Act or FCA regulations. However, published guidance must relate to, and be limited by, the Act and FCA regulation and cannot serve as the basis for an MRA. <i>See, e.g.,</i> 12 CFR 262, Appendix A; <i>see also</i> Fed. Register Vol. 86, No. 66 (Apr. 8, 2021); Interagency Statement Clarifying the Role of Supervisory Guidance (Sept. 11, 2018). Responding to and addressing MRAs impose unnecessary, and not legally supportable, costs and burdens on System institutions contrary to the protections afforded by the Administrative Procedures Act and related authority and result in inconsistent and subjective results and threaten the trust and relationships between System institutions and the regulator and internal relationships and compliance.	The regulator should be sure to limit the issuance of MRAs to violations of the Act or FCA regulation or as otherwise expressly permitted by law. Other recommendations may be made by the regulator in the course of an examination but should not be made the basis of an MRA.
22	Farm Credit Act, CFR, and FCA-Published Guidance	FCA-Published Guidance	Miscellaneous	A primary goal to examinations is compliance with the Act and FCA regulations promulgated under the Act. System institutions can more readily achieve compliance if: (i) examinations were limited to, and based on, the Act and FCA regulations, as required; (ii) examination manual guidance was cumulative of the guidance published by FCA through the effective date of the manual; and (iii) System institutions could access prior examination manual	The regulator should enable System institutions to identify compliance requirements by looking to the Act, FCA regulations, and examination manual guidance that summarizes and cites to the Act and FCA regulations and does not exceed such scope. System institutions should not be forced to rifle through decades' worth of publications, and/or review examination manual guidance that is not based on the Act or FCA

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				<p>guidance to prepared redline or comparison versions to identify any changes being made from year-to-year or, in the alternative, FCA summarized any changes made from year-to-year or issued its own redline or comparison version for others to review. Further, and perhaps more critically, since FCA-published guidance should relate to, and be based on, the Act and FCA regulation, and any guidance that helps promote compliance with those authorities, whether set forth in an IM, BL, or policy statement, should be summarized and cited in the examination manual, so System institutions can confirm the scope of guidance going into an examination rather than having to review information spanning years (if not decades) and having to guess which guidance was still deemed relevant and which guidance was no longer actively being considered.</p>	<p>regulation, to determine (guess) its current compliance requirements. Compliance should be transparent and measurable and not subjective and/or based on guidance that exceeds the Act and that has not otherwise satisfied the Administrative Procedures Act. Simply put, the examination manual should be a one-stop resource for System institutions. System institutions should be able to rely upon such guidance to know whether they are in compliance, which would help promote transparency and consistency in the examination process (on both sides), allow for better preparation and communication during the examination process, and reduce the likelihood of regulation by examination (and variances in interpretation). Examinations should not be a surprise environment.</p>
23	Farm Credit Act, CFR, and FCA-Published Guidance	12 CFR 262 and Published Guidance	12 CFR 262, Appendix A; see also Fed. Register Vol. 86, No. 66 (Apr. 8, 2021); Interagency Statement Clarifying the Role of Supervisory Guidance (Sept. 11, 2018)	<p>MRAs should only be issued for violations of the Act or FCA regulation(s) promulgated under the Act and should not be issued for perceived violations of examination guidance alone. A regulator is without authority to enforce guidance or best practices (even if the intent behind the best practice is good); a regulator can only enforce the Act and the regulations promulgated thereunder, after notice and an opportunity to comment has been afforded and all conditions precedent have been satisfied. A regulator can issue recommendations or comments based on published guidance or best practices but such cannot serve as the basis for an MRA. Other regulators have addressed this issue and have confirmed the limits of MRAs to be issued for such reasons. <i>See, e.g.</i>, 12 CFR 262, Appendix A; <i>see also</i> Fed. Register Vol. 86, No. 66 (Apr. 8, 2021); Interagency Statement Clarifying the Role of Supervisory Guidance (Sept. 11, 2018). Examining System institutions, and issuing MRAs based on published guidance alone, exceeds the scope of a regulator’s authority and results in a subjective examination, giving rise to inconsistent System results, lack of preparedness, unnecessary cost, impairment of relationships between regulator and System institution, unreliable outcomes, and unenforceable results. For example, FCA issued guidance on Model Risk Management (“MRM”) without citing, sourcing, or referencing the Act or FCA regulation. Within months of issuing the guidance, System institutions were examined and MRAs were issued for not complying with such guidance, even though no cite or the Act or FCA regulation had been made. While MRM may be a good idea, without proper legal support, and without such guidance going through a proper, and legally required, notice and comment period, System institutions were not afforded an opportunity to comment on, prepare for, or respond to the guidance, and any changes required by MRM imposed costs and burdens that were not anticipated. Because of the immediacy of the guidance and lack of an opportunity to provide notice and comment, System institutions could not have anticipated the enforcement of the guidance (as it is not legally required) and could not have had appropriate time to review and consider such guidance even if they wanted to follow such guidance. Without proper vetting, System</p>	<p>The regulator should limit the issuance of MRAs to only matters for which it is legally permitted to make such issuances (<i>e.g.</i>, violations of the Act, FCA regulation). Other matters may be subject to recommendations appropriately issued by the regulator but may not be made subject of an enforcement action.</p>

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				institutions do not know whether compliance is required or when they have satisfied the guidance – <i>i.e.</i> , when they have reached the bottom. The law affords protections to regulated institutions; such protections were not satisfied with regard to MRM and other guidance that has been issued, and under which System institutions have been examined, that are not required by the Act and FCA regulation (as regulations should be limited by, and based on, the Act). Thus, the regulator should not examine against, and/or issue MRAs under, such guidance and the regulator should not combine recommendations and MRAs and treat them alike; they are distinguishable and serve separate purposes.	
24	PS	Policy Statement	Policy Statement, FCA-PS-59, Regulatory Philosophy, Eff. Date July 8, 2011	FCA has issued a significant amount of guidance and proposed a number of proposed rules within a relatively compressed amount of time, which impose administrative and other costs on System institutions and threaten the ability to operate efficiently and in the best interest of the cooperative. Each time new guidance is issued and/or a new rule is implemented, System institutions must update, modify, or replace internal guidance and/or systems, in whole or in part, without experiencing a commensurate benefit or furtherance of safety and soundness.	The regulator should consider the administrative burden of issuing new guidance and/or new rules and engaging in related examination activity and the impact and timing of same on System institutions. The regulator previously issued a policy statement related to such measures, which should be considered and followed in: (i) eliminating and not imposing unnecessary regulations that impair the ability of System institutions to accomplish their mission; and (ii) not imposing regulations that are unduly burdensome, costly, or not based on the law. <i>See, e.g.</i> , Policy Statement, FCA-PS-59, Regulatory Philosophy, Eff. Date July 8, 2011; <i>see also</i> Farm Credit Act of 1971, as amended; 12 USC 2001, <i>et seq.</i>