March 31, 2025

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

RE: Internal Control Over Financial Reporting; RIN 3052-AD56

Dear Ms. Agans:

Capital Farm Credit (CFC) appreciates the opportunity to comment on the proposed rule to amend the reporting regulations at 12 CFR § 620.3 to require Farm Credit System (System) associations that meet certain asset thresholds or conditions, as well as all System banks, to obtain annual attestation reports from their external auditors. We appreciate FCA's review of existing regulations for opportunities to improve safety and soundness of the System and we are clearly vested in ensuring the same for the benefit of our customers and future generations of agricultural producers and rural residents. That said, CFC does not agree with the approach contained in the proposed rule for the reasons stated below.

FCA states that "risks have increased with Farm Credit System growth and consolidation" and provides historical examples of how the System has grown loan volume while also merging to create operating efficiencies. While growth and consolidation have occurred, the commentary fails to note the significant increases made by these larger entities by way of internal and external audits as well as enhanced control environments and appropriate professional support staff in areas such as accounting, legal, compliance and information technology. In addition, FCA has expanded the depth and scope of its review of these larger associations and has not publicly identified any material weaknesses in the controls of the same – by way of approving mergers and public offerings of preferred stock.

It should also be recognized that while the System has become more efficient in meeting the needs of larger agricultural producers and agribusinesses, the lending authorities that we operate under have been largely unchanged in the past several decades. When loans are shared or participated across the System or with outside lending partners, the risk in those transactions only decreases with additional review and scrutiny. Accordingly, we do not believe that growth in the System or the sharing of credits has produced any new levels of exposure beyond size.

In the proposed rule, FCA noted that the "Farm Credit System Insurance Corporation (FCSIC), views concentration risk as an increasing concern. The association concentration mentioned above has significantly increased direct loan concentration for System banks, which in turn has impacted FCSIC's risks of insuring System banks. Concentrated associations pose significant inherent risks to their banks and FCSIC's Insurance Fund." While there is perhaps an anecdotal argument that increased transaction size might result in the potential for a larger claim, it is disingenuous to state that 'concentrated associations' pose additional risk to the Insurance Fund. In fact, under 12 U.S.C. §§ 2277a-2277a-14, Congress requires FCSIC to maintain a 2% secure based amount of insured debt – without respect to where that debt is held within the Farm Credit System.

The proposal, if adopted, will add significant costs to the System and its members through the additional expenses of the integrated audit and could result in delays in publication of financial reports for immaterial ICFR matters that would potentially create disruptions at the System or District level. For associations that would be covered by the proposal that are over-chartered with smaller institutions that would be exempt, this also creates a disadvantage in the market while placing the additional expenses on our stockholders.

The added layer of the integrated audit provides little benefit for institutions that operate in a cooperative structure, as this was designed for publicly traded companies – with the purpose of providing additional protection to potential investors. FCA even acknowledges this in the proposed rule with respect to the references to the Securities and Exchange Commission (SEC) standards, the Public Company Accounting Oversight Board rules, and the following statement: "When drafting the Proposed Rule, FCA reviewed the audit requirements that govern publicly traded financial institutions, institutions regulated by the Federal Deposit Insurance Corporation (FDIC), and other federal financial institution regulatory agencies."

If the effort is to mirror these other regulators and provide a similar set of standards for the System where increased risk can be addressed by an integrated audit, then it would be more appropriate to require this approach in circumstances that align more with publicly traded companies. For the System, that would be situations such as: mergers of banks or associations; issuances of preferred stock or subordinated debt; if an institution is subject to an enforcement action by FCA or receives an unacceptable FIRS rating; or in the event of a default by an association under the General Financing Agreement (GFA) with its funding bank.

To simply require the additional burden of the integrated audit based on the size of an institution would be arbitrary and capricious and not align with the stated goals set forth by the agency in this rulemaking. Capital Farm Credit wishes to thank the Farm Credit Administration for the opportunity to provide our input and we hope that these comments will be useful in refining the proposed regulation.

Sincerely,

Sally Lawson

Capital Farm Credit, ACA