

June 17, 2014

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

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

Dear Mr. Mardock:

We appreciate the opportunity to comment on the proposed rule referenced above.

Farm Credit Services of Western Arkansas believes that it is crucial that Farm Credit directors, employees and agents abide by certain standards of conducts and code of ethics in order to protect our profitability and fiduciary integrity; safeguard public confidence in the Farm Credit System and place the Farm Credit System and/or association above self-interest in certain financial dealings and we applaud the FCA in working to clarify and strengthen the Standards of Conduct and Referral of Known or Suspected Criminal Violations regulation.

We would like to comment on the proposed changes below:

- Modify definitions - *Definitions (612.2130)*

“The proposed rule would continue to provide that a controlled entity includes an interest in an entity in which the individual, director or indirectly or acting through or in concert with one or more persons, owns 5 percent or more of the equity of the entity; owned, controls, or has the power to vote 5 percent or more of any class of voting securities of the entity; or has the power to exercise a controlling influence over the management of the entity. The FCA is aware that in other contexts the definition of “controlled entity” or “entity controlled by” may mean having an ownership interest with a greater threshold than 5 percent; however, the purpose of this rule is to ensure that institution directors and employees are complete objective in their decision-making; and are not in any way influences by personal interests. The FCA believes that a reasonable person could conclude that a director or employee could be influenced to act favorably toward an entity in which he or she had an economic interest of 5 percent or more.”

We respectfully disagree that a 5 percent equity is material and request that the 5 percent be raised.

- *Director and Employee Responsibilities and Conduct – Generally (Proposed 612.2135)*

Adding the words “and guidance” to the paragraph (b) to make clear that in addition to regulations, policy statements, instructions and procedures, directors and employees must observe guidance of the FCA, to the best of their abilities.

We respectfully ask what other guidance is available? Potential conflicts could arise in EIC guidance if change in EIC occurs. FCA should consider preparing and publishing guidance similar to what it has done in the “Directors Role” handbook. This would provide consistent guidance across the system. FCA prepared and published model disclosure forms for employees, directors and agents would also provide consistency and assure that all information needed in order to make informed determination about compliance was obtained.

- *Conflicts of Interest (Proposed 612.2136)*

The proposal to include agents and other consultants under new 612.2136 should be removed. System institutions do not have the ability to control, enforce or manage agents as the proposed rule seeks to require. Often, attorneys represent the borrower in a transaction while also closing the loan or issuing a title policy to the lender. While they would likely be agents under the FCA regulations, they would primarily be representing the borrower in the loan closing and would be inherently conflicted and unable to comply with this rule.

Expanding coverage of the regulation to include professionals, consultants and the like will be overly burdensome and nearly impossible for System institutions to comply with. For instance, many individuals and entities provide advice to various institutions within the system as well as to companies that do business with us or who borrow from us. Requiring a disclosure or full conflict checks, etc. for non-attorneys will either result in institutions not having access to some of these critical resources (who likely may not consent to reveal such information), delay the ability to get timely assistance and create a supervisory burden for the Standards of Conduct Official that will unnecessarily divert his or her time and attention away from more important matters.

- *Director Reporting (Current 612.2145 Is Proposed 612.2140)*

Currently reads:

(a) Annually, as of the institution's fiscal yearend, and at such other times as may be required to comply with paragraph (c) of this section, each director shall file a written and signed statement with the Standards of Conduct Official that fully discloses:

(1) The names of any immediate family members as defined in § 620.1(e) of this chapter, or affiliated organizations, as defined in § 620.1(a) of this chapter, who had transactions with the institution at any time during the year;

(2) Any matter required to be disclosed by § 620.6(f) of this chapter; and

(3) Any additional information the institution may require to make the disclosures required by part 620 of this chapter.

(b) Each director shall, at such intervals as the institution's board shall determine is necessary to effectively enforce this regulation and the institution's standards-of-conduct policy adopted pursuant to § 612.2165, file a written and signed statement with the Standards of Conduct Official that contains those disclosures required by the regulations and such policy.

At a minimum, these requirements shall include:

(1) The name of any relative or any person residing in the director's household, business partner, or any entity controlled by the director or such persons (alone or in concert) if the director knows or has reason to know that such individual or entity transacts business with the institution or any institution supervised by the director's institution; and

(2) The name and the nature of the business of any entity in which the director has a material financial interest or on whose board the director sits if the director knows or has reason to know that such entity transacts business with:

(i) The director's institution or any institution supervised by the director's institution; or

(ii) A borrower of the director's institution or any institution supervised by the directors institution.

(c) Any director who becomes or plans to become involved in any relationship, transaction, or activity that is required to be reported under this section or could constitute a conflict of interest shall promptly report such involvement in writing to the Standards of Conduct Official for a determination of whether the relationship, transaction, or activity is, in fact, a conflict of interest.

(d) Unless a disclosure as a director candidate under part 620 of this chapter has been made within the preceding 180 days, a newly elected or appointed director shall report matters required to be reported in paragraphs (a), (b), and (c) of this section to the Standards of Conduct Official within 30 days after the election or appointment and thereafter shall comply with the requirements of this section.

In the change wording of this section, it states that, "This rule does not require a director to solicit information from these persons or entities to determine whether they had or have transactions with the institution. However, the FCA presumes that a director would know or have reason to know whether or not a relative or other persons residing in the director's household (b)(1) had or has transactions with the institution. We agree that it could be probable that a director would know if someone living in his household has a transaction, but not necessarily a family member (a)(1) that lives 200 miles away. Should the director be penalized for not listing the relative? Should the SOCO be penalized because the director didn't list? We suggest not.

- *E. Directors – Prohibited Conduct (Current 612.2140 is Proposed 612.2145)*

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Farmers and ranchers routinely conduct business with each other. This regulation would cause significant hardships on our directors and their businesses. Our director who is a feed/seed store owner or his staff, may not be aware that the farmer purchasing feed/seed is a customer. Is this matter something our director must investigate before making a sale? Our directors do not approve loans to customers and do not set terms on customers' loans.

There could arise facts and circumstances where a director or employee learns that the other party to a transaction which they have already completed is owned by or controlled by a borrower or other insider, despite reasonable due diligence and efforts to avoid such occurrences. This is especially true, given the rather narrow definition of a controlled entity under the regulation. Under proposed 612.2145(b)(4), there should be a process or mechanism for the Standards of Conduct Official to take a matter before the institution's board to ratify a transaction after it has occurred. As to the restriction on ratification, please reconsider this arbitrary limitation and provide an alternative "cure" such as ratification by the board upon recommendation of the Standards of Conduct Official.

- *I. Institution Responsibilities (Proposed 612.2160)*

The specific requirement under proposed 612.2160(f) to have documentation that agents (1) are subject to applicable industry or professional ethics standards, or (2) have certified to adhere to the provisions of the System institution's Code of Ethics applicable to agents merely creates a compliance burden with no appreciable benefit to the System or public. Just as with any other lender, an institution should be able to reasonably rely on an appraiser or attorney's good standing with their respective licensing board or bar without having to require documentation.

- *J. Code of Ethics, Policies and Procedures (Proposed 612.2165)*

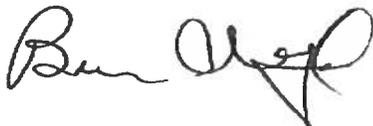
Proposed 612.2165(b)(2) should be clarified as to the procedures or processes the Standards of Conduct Official should use in verifying that insider loans were made without favoritism or special terms. Is a memo from the loan officer sufficient?

- *L. Standards of Conduct for Agents (Current 612.2260 Is Proposed 612.2180)*

See comment on "Institution Responsibilities" above.

Thank you for your consideration of our comments. If you have any questions, please do not hesitate to contact me.

Sincerely,



Bruce Alford
Chairman of the Board of Directors
Farm Credit Services of Western Arkansas