



## EM-33.3

**Category:** Compliance  
**Topic:** Financial & Shareholder Reporting  
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### Overview

Farm Credit System (System) institutions must provide financial information and other relevant disclosures to shareholders and FCA. These requirements are set forth in FCA Regulations, primarily in Parts [620](#) and [621](#). The purpose of the regulations is to ensure shareholders are provided with complete and accurate disclosure of all matters relating to the financial condition of the institution, enabling them to make informed decisions and take appropriate actions as necessary. These disclosures include the annual and quarterly reports to shareholders, annual meeting information statements, and notices to shareholders. In addition, each institution must provide FCA with quarterly Uniform Reports of Financial Condition and Performance (Call Reports).

FCA Regulations and [Call Report instructions](#) prescribe the preparation, filing, accuracy, and content requirements for each disclosure to shareholders and the quarterly Call Reports, respectively. FCA's [FAQs About the Disclosure and Reporting Rule](#) contain additional information and clarifications. Institutions must have effective financial reporting controls to comply with regulatory requirements. Incomplete, inaccurate, or misleading disclosures on the part of any institution, employee, director, or director nominee are prohibited. If examiners identify incomplete or erroneous disclosures, they can require the institution to make additional or corrected disclosures.

### Examination Procedures and Guidance

#### General

##### **1. Annual Report:**

Determine if the annual report to shareholders complies with regulatory disclosure requirements and adequately informs shareholders of the institution's financial condition and results of operations.

##### Guidance:

Institutions must prepare comprehensive annual reports on their financial condition, results of operations, and related disclosure items for distribution to shareholders and investors. FCA Regulations identify specific requirements for annual report preparation, filing, accuracy, and content. General expectations are summarized below (refer to the regulations for additional details).

- FCA Regulations [620.2](#) and [620.4](#) require institutions to prepare and provide annual reports to shareholders and FCA according to the instructions contained in Part 620 of the

regulations. Additional guidance on the filing requirements is provided in an Informational Memorandum on [Instructions for Filing Part 620 Reports with FCA](#) dated February 7, 2008. Each institution must submit an electronic copy of its annual report to FCA within 75 calendar days after yearend and post a copy of the report on its website when it is submitted to FCA. Within 90 days after yearend, institutions must provide shareholders a copy that is substantively identical to the report submitted to FCA.

- FCA Regulation [620.3](#) requires that annual reports not be incomplete, inaccurate, or misleading. For those institutions with over \$1 billion in assets, the report must include management's assessment of internal controls over financial reporting. Each report must be dated and signed by the chief executive officer (CEO), chief financial officer (CFO), and a board member, with the signatories certifying the report's financial accuracy.
- FCA Regulation [620.5](#) requires annual reports to contain the following items in substantially the same order:
  - Description of business
  - Description of property
  - Legal proceedings and enforcement actions
  - Description of capital structure
  - Description of liabilities
  - Selected financial data
  - Management discussion and analysis of financial condition and results of operations
  - Directors and senior officers
  - Relationship with qualified public accountant
  - Financial statements
  - Credit and services for young, beginning, and small (YBS) borrowers
- FCA Regulation [620.6](#) requires disclosure of director and senior officer compensation in the annual report. Associations have the option to disclose senior officer compensation in the annual meeting information statement. Refer to the *Compensation Disclosures* and the *Bank Director Compensation* sections in FCA's [FAQs About Governance Changes in 2006](#) for additional information and clarifications. The regulation also requires disclosures of other items, such as involvement in legal proceedings and transactions with directors and senior officers.
- FCA Regulations [628.61](#), [628.62](#), and [628.63](#) establish public disclosure requirements for each bank related to the capital requirements in part 628.

## **2. Quarterly Report:**

Determine if quarterly reports to shareholders comply with regulatory disclosure requirements and adequately inform shareholders of the institution's financial condition and results of operations.

### Guidance:

A quarterly report is a document required by FCA Regulations reporting on an institution's financial results for the quarter and noting any significant changes or events. Quarterly reports contain unaudited interim financial statements and management's discussion and analysis, and may include disclosures on significant or material events that have occurred. FCA Regulations identify specific requirements for quarterly report preparation, filing, accuracy, and content, as summarized below (refer to the regulations for additional details).

- FCA Regulation [620.2](#) and [620.10](#) require institutions to prepare and provide quarterly reports to shareholders and FCA according to the instructions contained in Part 620 of the regulations. Additional guidance on the filing requirements is provided in an Informational Memorandum on [Instructions for Filing Part 620 Reports with FCA](#) dated February 7, 2008. Each institution must submit an electronic copy of its quarterly report to FCA within 40 calendar days of quarter-end. When the institution submits the report to FCA, it must also post a copy on its website.
- FCA Regulation [620.3](#) requires that quarterly reports not be incomplete, inaccurate, or misleading. For those institutions with over \$1 billion in assets, the report must disclose any material change(s) in the internal control over financial reporting occurring during the reporting period. Each report must be dated and signed by the CEO, CFO, and a board member, with the signatories certifying the report's financial accuracy.
- FCA Regulation [620.11](#) requires quarterly reports to contain interim financial statements, a Management Discussion and Analysis section, and other related financial items. They may also include notices required under FCA Regulation [620.15](#).
- FCA Regulations [628.61](#), [628.62](#), and [628.63](#) establish public disclosure requirements for each bank related to the capital requirements in part 628.

### 3. AMIS:

Determine if the annual meeting information statement (AMIS) complies with regulatory disclosure requirements.

#### Guidance:

An AMIS is a document informing eligible shareholders of the institution's annual meeting in which shareholders are asked to vote on director or Nominating Committee positions, and may include other voting topics such as mergers. The statement is essentially an invitation which includes the date, time, location, and disclosure information for the annual shareholder meeting. FCA Regulations identify specific requirements for AMIS preparation, filing, accuracy, and content. General expectations are summarized below. Refer to the regulations, other documents listed below, and the *Director Elections and the AMIS* section in FCA's [FAQs About Governance Changes in 2006](#) for additional details and guidance.

- FCA Regulation [620.2](#) and [620.20](#) require institutions to prepare and provide an AMIS to shareholders and FCA according to the instructions contained in Part 620 of the regulations. Additional guidance on the filing requirements is provided in an Informational Memorandum on [Instructions for Filing Part 620 Reports with FCA](#) dated February 7, 2008. The AMIS must be provided to shareholders and FCA at least 10 business days, but not more than 30 business days, before an annual meeting or director election. When issued, the institution must provide an electronic copy to FCA. Institutions may post the AMIS to their website (not required) and, if so, it must remain on the website for at least 30 calendar days. Also, the statement must be available for public inspection at the institution's offices.
- FCA Regulation [620.3](#) requires that the AMIS not be incomplete, inaccurate, or misleading. Each AMIS must be dated and signed by the CEO, CFO, and designated board member. Refer to questions 8A, 8B, and 8C in FCA's [FAQs About the Disclosure and Reporting Rule](#) for information on signature and certification expectations.

- FCA Regulation [620.6](#) allows associations to disclose senior officer compensation in either the annual report or AMIS.
- FCA Regulation [620.21](#) requires disclosure in the AMIS of the annual meeting date, time, location, and venue (online or at a physical location). Other standardized disclosures include financial updates, identifying the number of shareholders entitled to vote, information on existing board members, director-nominee disclosure information collected under FCA Regulation [611.330](#), and other voting items.

#### **4. Call Report:**

Determine if quarterly Call Reports are accurate and comply with applicable regulatory requirements and instructions.

##### Guidance:

Call Reports provide FCA and other interested persons with information about the financial condition, results of operations, and various other activities of institutions. FCA Regulations identify the general requirements for submission of Call Reports. These requirements are summarized below (refer to the regulations for additional details).

- FCA Regulation [621.12](#) requires institutions to submit electronic Call Reports to FCA as of each quarter-end in accordance with FCA instructions. The instructions require banks to file Call Reports within 20 days after quarter-end. Associations and service corporations must file by the last day of the month following quarter-end.
- FCA Regulation [621.13](#) requires institutions to prepare their Call Reports in accordance with generally accepted accounting principles (GAAP) and FCA instructions and procedures.
- FCA Regulation [621.14](#) requires Call Reports to be certified as correct by an officer of the institution who has been named for that purpose by action of the board or, if no such person has been named, the president or CEO.

FCA provides [instructions](#) for preparing and filing Call Reports on its website. In addition to providing guidance for each Call Report line item, there is a General Instructions section that covers requirements for preparing, verifying, certifying, filing, revising, and retaining Call Reports. The Call Report spreadsheet also has a Difference Report that can be used as part of cross-checking data before submission.

FCA relies on the data provided through the Call Report system to make decisions and publish periodic reports regarding System institutions. As such, it is critical for Call Reports to be submitted in a timely manner and to accurately present the condition and performance of each institution. All items reported on the Call Report must reflect appropriate adjusting and closing entries to the reporting institution's financial records. If any material errors are discovered, the institution must file a corrected copy. Also, it is important that institutions keep the *Institution Profile* information current as FCA uses this information for several purposes.

#### **5. Financial Reporting Controls:**

Evaluate the adequacy of policies, procedures, audits, and other internal controls to ensure accurate and complete financial reporting and compliance with GAAP and applicable regulatory requirements.

## Guidance:

The accuracy and completeness of an institution's financial and shareholder reporting is dependent on the effectiveness of its financial reporting control processes. FCA Regulation [621.3](#) requires each institution to prepare and maintain, on an accrual basis, accurate and complete records of its business transactions as necessary to prepare financial statements and reports, including reports to FCA, in accordance with GAAP. Furthermore, an institution must prepare and maintain its books and records in a manner that facilitates reconciliation with financial statements and reports prepared from them. Effective controls help ensure that disclosure information is complete and accurate, financial statements are reliable, and the reports comply with GAAP, laws, and regulations.

Evaluative questions and items to consider when examining financial reporting controls include:

- ***Audit Committee: Has the board's Audit Committee provided effective direction and oversight of financial reporting?*** As outlined in FCA Regulation [620.30](#), the Audit Committee must oversee management's preparation of the report to shareholders; review the impact of any significant accounting and auditing developments; review accounting policy changes relating to preparation of financial statements; and review annual and quarterly reports prior to release. In addition, the Audit Committee must oversee the institution's system of internal controls relating to preparation of financial reports, including controls relating to the institution's compliance with applicable laws and regulations. The Audit Committee also serves as a knowledgeable authority with which internal and external auditors can discuss financial reporting issues and concerns. This committee must include any director designated as a financial expert. In addition, if the institution hires a financial expert advisor, that advisor will also serve as an advisor to the Audit Committee. Refer to the *Audit Committee* procedure in the *Audit & Review Programs* Examination Manual topic for more comprehensive guidance on examining audit committees. (Note: FCA Regulation [630.6](#) requires the Funding Corporation to have a System Audit Committee.)
- ***Management Assessment: Has management completed a thorough assessment of internal controls over financial reporting?*** FCA Regulation [620.3](#) requires that annual reports of those institutions with over \$1 billion in total assets (as of the prior fiscal yearend) must include a report by management assessing the effectiveness of internal control over financial reporting. The assessment must be conducted during the reporting period and be reported to the board. Quarterly and annual reports for those institutions with over \$1 billion in total assets must also disclose any material change(s) in the internal control over financial reporting occurring during the reporting period.
- ***Policies, Procedures, and Processes: Are adequate policies, procedures, and processes in place for financial reporting?*** Policies and procedures that communicate financial and shareholder reporting requirements serve as an important control to ensure financial statements are accurate and disclosures to shareholders and FCA include all required information. Examples of items to consider when evaluating the adequacy of policies, procedures, and processes for financial and shareholder reporting include:
  - Do policies and procedures include the expectations, delegations, responsibilities, and steps for developing, approving, and distributing shareholder and Call Reports? If there is no board policy, the process should be sufficiently documented by some other means. However, FCA Regulations specifically require institutions to have board policies in the following areas related to financial reporting:

- FCA Regulation [620.15\(a\)](#) – notices of significant or material events.
  - FCA Regulation [621.30](#) – engagement of external auditors.
  - FCA Regulation [628.62\(b\)](#) – banks must maintain a policy on internal controls over capital disclosures.
  - FCA Regulation [630.4\(a\)](#) – Funding Corporation must maintain written policies and procedures to be carried out by the disclosure entities for preparation of the report to investors.
- Are internal controls sufficient to ensure institutions address all key items in the reports and meet regulatory requirements? Typical practices include having segregation of duties, using checklists and templates, requiring verification of data by someone other than the preparer, and cross-training staff to allow reports to be completed when the main preparer is absent.
  - Is supporting workpaper documentation maintained and does it include the certifications, general ledger, loan trial balance, and other documents for support of numbers in the financial statements and Call Reports? The [Call Report instructions](#) identify guidance on these items, including a required retention period of 10 years for Call Reports and the certifications.
- **External Audit: Has a qualified, independent accountant (as defined in FCA Regulation [619.9270](#)) audited the financial statements? Were any material concerns identified?** FCA Regulation [621.4](#) requires each institution, at least annually, to have its financial statements audited by a qualified public accountant in accordance with generally accepted auditing standards. The qualified public accountant's opinion of the financial statements must be included as a part of the annual report to shareholders. If an institution disagrees with the accountant's opinion on the financial statements, or if there is a change in the accountant engaged to audit the financial statements, additional disclosures are required and FCA must be notified. Also, FCA Regulation 621, Subpart E includes specific requirements on auditor independence.

## 6. Audit:

Determine if the institution conducts an effective audit (scope, reporting, and followup) of financial and shareholder reporting.

### Guidance:

The internal audit and review program is a key mechanism for ensuring financial and shareholder reporting is accurate and complies with regulations, and the reporting process is functioning effectively. The internal auditor or other qualified, independent party should review financial and shareholder reporting processes to ensure compliance with applicable criteria. The audit risk assessment and scope should address financial reporting topics, and audit frequency should be commensurate with the complexity of the institution's operations and risk profile. The potential impact of unreliable reporting supports the need for strong detective controls in the form of internal audit coverage.

Evaluative questions and items to consider when examining the audit and review function regarding financial and shareholder reporting include:

- **Audit Coverage: Is there periodic audit or review coverage of financial and shareholder reporting processes?** Audit or review coverage and frequency should be appropriate

relative to risks, changes in the operating environment, regulatory requirements, and periodic testing needs. Coverage should also be consistent with the institution's risk assessment results and annual audit plan.

- **Scope and Depth: Are audit and review scope and depth sufficient to conclude on the accuracy, completeness, and timeliness of financial and shareholder reporting?** The scope should cover key processes and controls within the area being audited or reviewed. The depth of work should be sufficient to determine if internal controls are functioning as intended and regulatory requirements are met. The scope and depth of coverage should be consistent with the approved audit or review plan and engagement contract (if applicable). If audit or review work deviated materially from the original planned scope, the board (or Audit Committee, if so delegated) should be notified of the reasons for the change. Specific items that should be considered in the audit or review scope include:
  - Financial and shareholder reporting policies, procedures, processes, and controls.
  - Compliance with financial and shareholder reporting-related regulations, policies, and procedures.
  - Fraud-related threats and vulnerabilities, as well as anti-fraud controls.
- **Reliability of Results: Did FCA identify any concerns with audit and review reliability?** Evaluate the reliability of internal audit or review work by comparing the results to FCA's examination results in this area. This comparison often includes FCA testing of transactions that were covered in the internal audit or review (transactions are often loans or loan applications, but may include other types of transactional activity, as well). In addition to the audit or review report, examiners should request and review the workpapers and hold discussions with the auditor to obtain a more thorough understanding of work completed. Often, auditors and reviewers will complete line sheets, flowcharts, control matrices, standard work programs, workpaper forms, or other relevant documents when conducting work. Workpapers should adequately document the work performed and support the final report. In addition, any proforma work programs, workpapers, or other tools should be accurate and sufficiently thorough. If there are material weaknesses identified by examiners that are not identified by internal audits or reviews, examiners should assess the underlying reasons.
- **Reports: Do internal audit reports sufficiently communicate financial and shareholder reporting review results and recommendations, if applicable?** Examiners should consider the following when evaluating the audit or review report:
  - Is the report prepared in accordance with the institution's guidelines?
  - Is an executive summary or overview included to provide the board with a general conclusion on audit or review results?
  - Is the report accurate, concise, supported, and timely in communicating the audit or review objectives, scope, results, conclusions, and recommendations?
  - Are conclusions and recommendations realistic and reasonable given the institution's size and complexity, with material and higher risk issues clearly identified and prioritized?

- Are conclusions and recommendations supported by convincing evidence and persuasive arguments (condition, criteria, cause, and effect)?
- Does the report conclude whether the institution adheres to policies, procedures, and applicable laws or regulations, and whether operating processes and internal controls are effective?
- Does the report address potential vulnerabilities to fraud, if applicable?
- **Corrective Action: Are management responses to audit findings in this area reasonable, complete, and timely? Have corrective actions been effective?** Audits and reviews are only effective if corrective action is taken to remedy the weaknesses identified. As such, there should be a reasonable, complete, and timely management response to the audit or review report. In some cases, management commitments and agreements or any areas of disagreement are documented in the report or in a separate memo or tracking system. If corrective actions are not resolving the issues or concerns (based on repetitive audit findings, FCA findings, etc.), examiners should further investigate the reasons. For example, this could indicate the audit or review did not sufficiently identify the underlying causes or materiality of weaknesses, sufficient resources are not being directed toward corrective actions, or weaknesses exist in the institution's corrective action process, including board oversight of the process.