Fact Sheet

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Fact Sheet on Senior Officer Compensation Disclosures and Related Topics Proposed Rule

The Farm Credit Administration (FCA) adopted a proposed rule today to revise its regulations governing

- disclosures of senior officer compensation and supplemental retirement plans,
- reporting of significant events to shareholders,
- compensation committee responsibilities, and
- a nonbinding, advisory vote on senior officer compensation.

Economic and business environments are changing, and there have been recent developments in best practices related to compensation. As a result, FCA is updating and strengthening its regulations to reflect current practices in the Farm Credit System and to maintain the high standards expected of a Government-sponsored enterprise composed of cooperative institutions.

The proposed rule seeks to improve the transparency, completeness and timeliness of disclosures to shareholders; encourage member participation in the control and management of their institution; and continue to ensure the exercise of good stewardship by compensation committees.

Summary of Proposed Changes

§ 611.410 Compensation of senior officers: The proposed rule would require a nonbinding advisory vote by voting shareholders on senior officer compensation if compensation increases or decreases by 15 percent from the previous reporting period or, at associations only, if 5 percent of the voting shareholders petition for the vote. Current regulations do not require a vote. The vote would provide shareholders a means to clearly express and easily communicate either their approval or disapproval of senior officer compensation practices to their institution's board.

§ 620.5(e)(4) Description of liabilities: In addition to describing insured and uninsured debt, the proposed rule would require banks and associations to disclose in their annual reports

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information about supplemental retirement plans for employees other than senior officers, including the institution's projected long-term obligations related to the plans. The disclosure would enhance the transparency and completeness of an institution's obligations and commitments.

§ 620.6(c)(4) Compensation of senior officers: The proposed rule would require disclosure of supplemental executive retirement plans for senior officers. At a minimum, the institution would be required to disclose the funded and unfunded present value of accumulated benefits, years of credited service, and unvested or off-balance-sheet amounts. The enhanced disclosure would ensure that obligations and commitments for all senior officer retirement programs are complete and transparent to the shareholder.

§ 620.6(c)(5) Compensation of senior officers: The proposed rule would require disclosure of the overall risk and reward structure for senior officer compensation plans and practices, the relationship of senior officer compensation to the institution's overall performance, and the relationship of the compensation to the senior officers' performance.

§ 620.15 Notice of significant or material events: The proposed rule would require timely and transparent disclosure of certain significant or material events. The events would be disclosed in either a notice to shareholders or in the quarterly report to shareholders. Events to be disclosed would include, but not be limited to, early director departures, the unplanned departure of a senior officer, results of shareholder votes, reportable supervisory and enforcement actions, and changes in capitalization plans or bylaws. The disclosure is intended to enhance communication with member-owners and encourage participation in the control and management of their institution.

§§ 620.31(b) and 630.6(b)(2) Compensation committees: The proposed rule would clarify and enhance the responsibilities of compensation committees to ensure that each committee understands the terms and provisions of incentive-based compensation programs and an institution's long-term obligations for compensation and retirement benefits, and balances financial rewards to senior officers against the risks to the institution.

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