

Farm Credit Administration

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Bookletter – BL – 065

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To: The Chairman of the Board
The Chief Executive Officer
All Farm Credit System Institutions

From: Leland A. Strom 
Chairman and Chief Executive Officer

Subject: Establishment and Implementation of a Shared-Asset Identifier

The Farm Credit Administration (FCA, we, our) Board strongly believes that in order to fully meet FCA's responsibility to ensure the safety and soundness of the Farm Credit System (System), we must have timely, complete and accurate information about shared assets. Shared assets include any loans or other assets with a common risk exposure between two or more System institutions through participation agreements, syndications, assignments, or other arrangements. The System must be able to identify and manage the risk exposure on shared assets at both the System and institution levels. It is also important that FCA have the capability to quickly identify and access information on such exposures. This booklet describes FCA's expectations for each System institution and its board of directors to establish and implement an automated mechanism to consistently identify shared-asset exposures. Also, we believe it is important that the System demonstrate substantial progress towards establishing a shared-asset identifier and regularly update FCA on such progress.

Section 5.22A of the Farm Credit Act and Section 621.12(a) of FCA regulations require each System institution to prepare and file such reports of condition and performance as may be required by FCA. Further clarification is provided in Section 621.12(b), which states that these reports of condition and performance must be filed four times a year and may include such additional reports as may be necessary to ensure timely, complete, and accurate monitoring and evaluation of the affairs, condition, and performance of System institutions as determined by the Chief Examiner. In addition, Section 621.12(c) requires all reports of condition and performance to be submitted electronically in accordance with the instructions prescribed by FCA.

The FCA Board expects the board of directors and management of each System institution to support establishing and implementing an automated Systemwide mechanism to identify and report shared-asset exposure. This will allow FCA and the System to monitor this risk in a more timely and efficient manner. Once the System has established and implemented a shared-asset identifier, it will become a required data element field in the System's quarterly loan database submissions. For the longer term, the System's process should include the capability to aggregate and report loan exposures to individual borrowers or entities attributed for lending-limit purposes, and eventually to all affiliated borrowers. Also, FCA may request the System to consider additional criteria in the identification of shared-asset exposures as the System and FCA continue to assess data needs.

Because of the importance this effort will have on ensuring the safety and soundness of each System institution and the System as a whole, FCA expects by December 31, 2012, significant and timely progress by System institutions in developing and implementing an automated mechanism to identify, track, and report System shared assets. Therefore, within 30 days of each quarter end, beginning with the last quarter of 2012 and until the automated mechanism is fully implemented, the System will provide FCA with a written report on the progress towards establishing the shared-asset identifier.

In addition, we expect that:

1. The automated mechanism will
 - a. report shared assets at the lowest loan record level captured in each institution's information systems and
 - b. enable aggregation of loan information to the contractual credit facility and customer by institution and provide for the Systemwide aggregation of credit facilities and customers.
2. Each System institution and its board of directors will cooperate in implementing the automated mechanism.
3. Each institution will support its bank or data provider to ensure that the institution's shared assets are reported in a timely, complete, and accurate manner.
4. The shared-asset identifier for each shared asset will be reported as a data component of the System's quarterly loan database submissions to FCA in compliance with FCA's established submission schedule, format, and technological requirements.
5. System institutions will maintain internal controls to ensure accurate and complete shared-asset data.

Collaboration by the System will improve the mechanisms and disciplines necessary to effectively assess and report shared-asset risks in a timely, complete and accurate manner. In order to facilitate this collaborative effort, FCA reminds institutions that section 618.8320(b)(1) provides that "authorized representatives of . . . the bank concerned shall have free access to all information, records, and files" regarding borrowers. This provision permits System-authorized representatives to have access to all information as may be necessary to support the

establishment and implementation of a shared-asset identifier, as well as for other purposes, such as systemic risk analysis.

To ensure a timely and accurate response to issues of risk identification and management, the availability of shared-asset identifier data is imperative. It is essential for FCA to have the capability to quickly access the detailed information on shared assets needed to evaluate in a timely and accurate manner the condition of each System institution and the System as a whole. Thus, the automated shared-asset identification mechanism described in this booklet is integral to maintaining this capability.

If you have any questions about this booklet, please contact Dave Stephens, Examination and Policy Director, Office of Examination, at (303) 696-9737 x2231 (stephensd@fca.gov), or Barry Mardock, Deputy Director, Office of Regulatory Policy, at (703) 883-4456 (mardockb@fca.gov).