

November 9, 2006



## FCA Final Rule—Disclosure and Reporting

On March 14, 2006, the Farm Credit Administration (FCA) published a proposal to amend FCA's regulations at parts 619, 620, 621, 624, and 630 by modifying the disclosure and reporting requirements of Farm Credit System (System) institutions. The FCA Board approved the final rule at the November 9, 2006, Board meeting. The final rule includes the following provisions.

**Streamlining of Certification and Submission Requirements to Strengthen Institutions' Board and Management Accountability for Financial Statements.** The final rule streamlines the filing, signature, and certification requirements by providing a uniform process for the annual and quarterly financial reports. The final rule requires the management of the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and the largest System institutions (with more than \$1 billion in assets) to annually review and report on the effectiveness of internal control over financial reporting. The Funding Corporation must also provide for an annual attestation from its external auditor on the Funding Corporation's assessment of internal control over financial reporting. Additionally, the final rule requires the Funding Corporation to issue interim reports to disclose significant events or material changes in System-wide operations occurring after publication of a quarterly or annual System-wide report.

**Acceleration of Timeframe for Reporting on Financial Information.** The final rule provides that the Annual Report to Investors be published within 75 days of the end of each fiscal year. Farm Credit banks and associations must also prepare and provide their shareholders with an annual report within 75 days after the end of their fiscal years. Additionally, the Funding Corporation must prepare a quarterly report within 45 days after the end of each fiscal quarter, and each Farm Credit bank and association must prepare a quarterly report within 40 days after the end of each fiscal quarter.

**Enhancement of the Independence of External Auditors.** The final rule establishes prohibited nonaudit services for an external auditor to avoid conflicts with the conduct of the audit. Audit committee approval is required for permitted nonaudit services conducted by the external auditor. External auditor fees for audit and nonaudit services must now be disclosed to shareholders and investors. Additionally, the final rule requires the lead and concurring audit partners to rotate off the audit engagement team after five years, with a five-year time-out period.

The final rule will be effective 30 days after publication in the Federal Register, during which either body of Congress is in session. Compliance with all provisions of the rule must be achieved by the start of the fiscal year immediately following the effective date of this rule, or if the start of that fiscal year is within three months of the effective date, the start of the next fiscal year.