In January 2005, FCA issued a proposed governance rule to safeguard sound governance practices of the Farm Credit System. In developing the final rule, the Agency received and considered over 300 comment letters. On January 6, 2006, the FCA Board approved the final rule, which appropriately reflects the cooperative structure and GSE status of the System and contains all the hallmarks of good governance that the marketplace has come to expect. The following points outline the reasons for adopting the rule and are followed by a short summary.

- **Safety and Soundness** - The final rule is necessary to uphold fundamental governance practices that are crucial to the safety and soundness of the System.

- **Consistent Standards** - While the Farm Credit System has voluntarily implemented many of these emerging best practices, FCA acted to preserve these voluntary efforts in our rulemaking effort. Consistent governance standards throughout all System institutions preserve the confidence of the System’s stockholders and investors and mitigate reputation risk.

- **Tailored to System Structure** - The regulation represents an efficient and cost-effective regulatory approach tailored to the System’s cooperative structure and provides local institutions flexibility in implementing governance policies.

- **Furthering the Mission** - The establishment of these sound governance practices will further the System’s mission of serving agriculture and rural America by maintaining cost-effective financing for farmers and ranchers.

**Summary of the Final Rule:**

**Strengthens overall Board effectiveness**

- Requires that boards charter audit and compensation committees to assist boards in carrying out their fiduciary and oversight responsibilities to stockholders.

- Requires that all boards have a financial expert to facilitate boards’ financial oversight.
Requires at least 2 outside directors on bank boards and larger association boards to increase technical expertise.

Requires that boards develop and implement policies regarding (1) director qualifications and desirable skills and experience and (2) director training requirements to help maintain boards’ collective skill set.

Requires a board self evaluation along with strategies for addressing deficiencies, with a summary of the evaluation going to the nominating committee to assist in its search for qualified director candidates.

**Enhances core cooperative principle of borrower control**

Requires nominating committees comprised of members independent of institution boards for all System banks and associations.

Provides needed resources and information to nominating committees.

Requires directors and senior officers publicly disclose other business affiliations in annual report.

Provides for timely candidate information flow to association and bank stockholders voting in director elections.