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(c) *Resources*. Each institution must provide monetary and nonmonetary resources to enable its compensation committee to perform its duties.

[77 FR 60601, Oct. 3, 2012]

PART 621—ACCOUNTING AND REPORTING REQUIREMENTS

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AUTHORITY: Secs. 4.12(b)(5), 4.14, 4.14A, 4.14D, 5.17, 5.22A, 8.11 of the Farm Credit Act (12 U.S.C. 2183, 2202, 2202a, 2202d, 2252, 2257a, 2279aa–11); sec. 514 of Pub. L. 102–552.

SOURCE: 58 FR 48786, Sept. 20, 1993, unless otherwise noted.

Subpart A—Purpose and Definitions

§ 621.1 Purpose and applicability.

This part sets forth accounting and reporting requirements to be followed by all banks, associations, and service corporations chartered under the Act; the Federal Farm Credit Banks Funding Corporation; and, where specifically indicated, the Federal Agricultural Mortgage Corporation. The requirements set forth in this part are of both general and specific applicability. Certain requirements focus on areas of financial condition and operating performance that are of special importance for generating, presenting, and disclosing accurate and reliable information.

[58 FR 48786, Sept. 20, 1993, as amended at 78 FR 31835, May 28, 2013]

§ 621.2 Definitions.

For the purposes of this part, the following definitions shall apply:

Accounts and exposures means data related to any loan, lease, letter of credit, derivative, or, any other asset, liability, other balance sheet account, or off-balance-sheet exposure of a System institution.

Accrual basis of accounting means the accounting method in which expenses are recorded when incurred, whether paid or unpaid, and income is reported when earned, whether received or not received.

Adequately secured means the loan is secured by either or both:

(1) Collateral in the form of perfected security interests in, or pledges of, real and/or personal property (including securities with an estimable value) having a net realizable value sufficient to repay the loan's outstanding principal and accrued interest.

(2) The guarantee of a financially responsible party in an amount sufficient to repay the loan's outstanding principal and accrued interest.

Banks and associations mean all Farm Credit Banks, Agricultural credit banks, and associations.

Borrowing entity means the individual(s), partnership, joint venture, trust, corporation, or other business entity, or any combination thereof, that is primarily obligated on the loan instrument.

Central data repository means a central data warehouse that electronically collects and stores current and historical data and is created by integrating data from one or more disparate sources.

Generally accepted accounting principles means that body of conventions, rules, and procedures necessary to define accepted accounting practices at a particular time, as promulgated by the Financial Accounting Standards Board (FASB) and other authoritative sources recognized as setting standards for the accounting profession in the United States. Generally accepted accounting principles include not only broad guidelines of general application but also detailed practices and procedures that constitute standards by which financial presentations are evaluated.

Generally accepted auditing standards means the standards and guidelines that are generally accepted in the United States of America and that are adopted by the authoritative body that governs the overall quality of audit performance.

In the process of collection means debt collection or loan servicing efforts are proceeding in due course and are reasonably expected to result in the recovery of the loan's principal balance, accrued interest and penalties or reinstatement of the loan to current status within a reasonable time period.

Institution means any bank, association, or service corporation chartered under the Act; the Federal Farm Credit Banks Funding Corporation, and where specifically noted, the Federal Agricultural Mortgage Corporation.

Loan means any extension of credit or lease that is recorded as an asset of a reporting institution, whether made directly or purchased from another lender. The term ''loan'' includes, but is not limited to:

(1) Loans originated through direct negotiations between the reporting institution and a borrower;

(2) Purchased loans or interests in loans, including participation interests, retained subordinated participation interests in loans sold, and interests in pools of subordinated participation interests that are held in lieu of retaining a subordinated participation interest in loans sold;

(3) Contracts of sale; notes receivable; and

(4) Other similar obligations and lease financing.

Material means the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

Net realizable value means the net amount the lender would expect to be realized from the acquisition and subsequent sale or disposition of a loan's underlying collateral. Generally, net realizable value is equal to the estimated selling price in the ordinary course of business, less estimated costs of acquisition, completion, and disposal.

Past due means a contractually scheduled loan payment has not been received in full on or before the contractual due date and remains due.

Recorded investment means the face amount of the loan increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs, and may also reflect a previous direct write-down of the investment.

Reporting entity means the Federal Farm Credit Banks Funding Corporation, or other entity approved by the Farm Credit Administration.

Shared asset means any account or exposure where two or more Farm Credit institutions have assumed a portion of the asset's benefits or risks. An institution's share in the asset may be established through means such as syndications, participation agreements, assignments, or other arrangements with System entities.

Sustained performance means the borrower has resumed on-time payment of the full amount of scheduled contractual loan payments over a sustained period. In accordance with the contractual payment schedule, the sustained on-time repayment period is demonstrated by making 6 consecutive monthly payments, 4 consecutive quarterly payments, 3 consecutive semiannual payments, or 2 consecutive annual payments. The payments considered are those listed in the loan contract as due during the sustained performance period, regardless of whether scheduled payments are interest-only,

unequally amortized principal and interest, equally amortized principal and interest, or a combination of payment amounts.

[58 FR 48786, Sept. 20, 1993, as amended at 71 FR 76120, Dec. 20, 2006; 74 FR 28600, June 17, 2009; 78 FR 31835, May 28, 2013; 78 FR 77562, Dec. 24, 2013; 85 FR 52253, Aug. 25, 2020]

Subpart B—General Rules

§ 621.3 Application of generally accepted accounting principles.

Each institution shall:

(a) 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 the Farm Credit Administration, in accordance with generally accepted accounting principles, except as otherwise directed by statutory and regulatory requirements;

(b) Prepare its financial statements and reports, including reports to the shareholders, investors, boards of directors, institution management and the Farm Credit Administration, in accordance with generally accepted accounting principles, except as otherwise directed by statutory and regulatory requirements; and

(c) Prepare and maintain its books and records in such a manner as to facilitate reconciliation with financial statements and reports prepared from them.

§ 621.4 Audit by qualified public accountant.

(a) Each institution shall, at least annually, have its financial statements audited by a qualified public accountant in accordance with generally accepted auditing standards.

(b) The qualified public accountant's opinion of each institution's financial statements must be included as a part of each annual report to shareholders. The accountant must comply with the auditor independence provisions of subpart E of this part.

(c) If an institution disagrees with the opinion of a qualified public accountant required by paragraph (b) of this section, the following actions shall be taken immediately:

(1) The institution shall prepare a brief but thorough written description of the scope and content of the disagreement, noting each point of disagreement and citing, in all cases, the specific provisions of generally accepted accounting principles and generally accepted auditing standards upon which the institution's position in the disagreement is based;

(2) A copy of the institution's final description of the disagreement shall be given to the accountant who provided the opinion with which the institution disagrees;

(3) The accountant shall have 10 business days to develop and provide a brief but thorough final response to the institution's description of the disagreement, including all items believed to be incorrect or incomplete, and citing, in all cases, the specific provisions of generally accepted accounting principles and generally accepted auditing standards upon which the accountant's position in the disagreement is based;

(4) Both the institution's final description of the disagreement and the accountant's final response to it shall be included in the institution's annual report to shareholders directly following the accountant's opinion of the institution's financial statements; and

(5) The institution shall immediately notify the Chief Examiner, Farm Credit Administration, of any disagreement with its accountant and shall furnish the Farm Credit Administration with the written documentation required by paragraphs (c) (1) through (4) of this section.

(d) If an institution selects a qualified public accountant to audit its financial statements and provide an opinion thereon for its annual report who is different from the accountant whose opinion appeared in the institution's most recent annual report, the following items shall be sent to the Farm Credit Administration no later than 15 days after the end of the month in which the change took place and shall be included in the institution's annual meeting information statement and annual report to shareholders for the year in which the change of accountants took place:

(1) The name and address of the accountant whose opinion appeared in

the institution's most recent annual report to shareholders;

(2) A brief but thorough statement of the reasons the accountant selected for the most recent annual report was not selected for the current annual report. If the change resulted from a disagreement with the accountant, the statement shall describe the institution's disagreement with the accountant's opinion and the accountant's final response to the institution's disagreement prepared pursuant to paragraph (c) of this section; and

(3) The identification of the highest ranking officer, committee of officers, or board of directors, as appropriate, that recommended, approved, or otherwise made the decision to change qualified public accountants.

[58 FR 48786, Sept. 20, 1993, as amended at 71 FR 76120, Dec. 20, 2006]

§621.5 Accounting for the allowance for loan losses and chargeoffs.

Each institution shall:

(a) Maintain at all times an allowance for loan losses that is determined according to generally accepted accounting principles.

(b) Develop, adopt, and consistently apply policies and procedures governing the establishment and maintenance of the allowance for loan losses which, at a minimum, conform to the rules, definitions, and standards set forth in this part and any other applicable requirements.

(c) Charge-off loans, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

(d) Ensure that when an institution or the Farm Credit Administration determines that the value of a loan or other asset recorded on its books and records exceeds the amount that can reasonably be expected to be collectible, or when the documentation supporting the recorded asset value is inadequate, the institution shall immediately charge off the asset in the amount determined to be uncollectible. If the amount determined to be uncollectible by the institution is different from the amount determined to be uncollectible by the Farm Credit Administration, the institution shall charge off such amount as the Farm Credit Administration shall direct.

[58 FR 48786, Sept. 20, 1993, as amended at 74 FR 28600, June 17, 2009]

Subpart C—Loan Performance and Valuation Assessment

§621.6 Categorizing high-risk loans and other property owned.

Each institution must employ the practices of this section when categorizing high-risk loans and loan-related assets. A loan must not be put into more than one performance category.

(a) *Nonaccrual loans.* A loan is categorized as nonaccrual if there is a known risk to the continued collection of principal or interest. Once a loan is categorized as nonaccrual, it must remain in that category until reinstated to accrual status pursuant to §621.9. Loans placed into nonaccrual status when current are also subject to the notice and review provisions of part 617 of this chapter. A loan must be categorized as nonaccrual if one or more of the following conditions exist:

(1) The loan may or may not be past due, but the institution has determined collection of the outstanding principal and interest, plus future interest accruals, over the full term of the loan is not expected because of a documented deterioration in the financial condition of the borrower;

(2) The loan is 90 days or more past due and is not otherwise eligible for categorization under paragraph (c) of this section; or

(3) Legal action, including foreclosure or other forms of collateral conveyance, has been initiated to collect the outstanding principal and interest.

(b) *Formally restructured loans (TDR).* A loan is categorized as a formally restructured loan (Troubled Debt Restructure(TDR)) if the restructuring is determined to be a TDR under generally accepted accounting principles and the guidance issued by the Financial Accounting Standards Board.

(c) *Loans 90 days past due still accruing interest.* A loan is categorized as 90 days past due still accruing interest when it is 90 days or more contractually past due, adequately secured, and in the process of collection. If the loan is not

adequately secured, it cannot be categorized under this category unless there is evidence to suggest repayment within a reasonable time period of either the past due amount or the remaining principal and interest owed.

(d) *Other property owned.* Any real or personal property, other than an interest-earning asset, that has been acquired as a result of full or partial liquidation of a loan, through foreclosure, deed in lieu of foreclosure, or other legal means.

[85 FR 52253, Aug. 25, 2020]

§ 621.7 Rule of aggregation.

(a) When one loan to a borrower is placed in nonaccrual, an institution must immediately evaluate whether its other loans to that borrower, or related borrowers, should also be placed in nonaccrual. All loans on which a borrowing entity, or a component of a borrowing entity, is primarily obligated to the reporting institution shall be considered as one loan unless a review of all pertinent facts supports a reasonable determination that a particular loan constitutes an independent credit risk and such determination is adequately documented in the loan file.

(1) A loan shall be considered an independent credit risk if a substantial portion of the loan is guaranteed as to principal and interest by a government agency.

(2) Other loans shall be considered independent credit risks if and so long as:

(i) The primary sources of repayment are independent for each loan;

(ii) The loans are not cross-collateralized; and

(iii) The principal obligors are different person(s) and/or entity(ies). Related loans will not be considered independent credit risks if the operations of a related borrower are so financially interdependent with the borrower's operations that the economic survival of one will materially affect the economic survival of the other, determined in accordance with § 614.4359(a)(2) of this chapter.

(b) If the evaluation required by paragraph (a) of this section results in a determination that the borrower's other loans with the institution do not represent an independent credit risk, and full collection of such loans is not expected, then all of the borrower's loans must be aggregated and classified as nonaccrual. If such other loans represent an independent credit risk and are fully collectible, then they may remain in their current performance category.

(c) When an institution becomes aware that a borrower has a loan that has been classified nonaccrual by any other lender, the institution must reevaluate the credit risk in its loan to the borrower and then determine whether an independent credit risk exists.

[58 FR 48786, Sept. 20, 1993, as amended at 64 FR 34519, June 28, 1999]

§ 621.8 Application of payments and income recognition on nonaccrual loans.

Each institution shall employ the following practices with respect to application of cash payments on nonaccrual loans:

(a) If the ultimate collectibility of the recorded investment, in whole or in part, is in doubt, any payment received on such loan shall be applied to reduce the recorded investment to the extent necessary to eliminate such doubt.

(b) Once the ultimate collectibility of the recorded investment is no longer in doubt, payments received in cash on such loan may qualify for recognition as interest income if all of the following characteristics are met at the time the payment is received:

(1) The loan does not have a remaining unrecovered prior chargeoff associated with it, except in cases where the prior chargeoff was taken as part of a formal restructuring of the loan;

(2) The payment received has come from a source of repayment detailed in the plan of collection;

(3) The loan, after considering the payment, is not contractually past due more than 90 days and is not expected to become 90 days past due, or a repayment pattern has been established that reasonably demonstrates future repayment capacity.

(c) The institution shall employ the following practices with respect to earned but uncollected interest income on loans, leases, contracts, and similar

assets that are determined not to be fully collectible:

(1) Earned but uncollected interest income that was accrued in the current fiscal year and is determined to be uncollectible shall be reversed from interest income; and

(2) Earned but uncollected interest income that was accrued in prior fiscal years and is determined to be uncollectible shall be charged off against the allowance for loan losses.

§ 621.9 Reinstatement to accrual status.

(a) Before being reinstated to accrual status, a loan must be current on contractual payments and the borrower offered servicing in accordance with the institution's policies maintained under either § 614.4170 or part 617 of this chapter, whichever is applicable. Additional reinstatement eligibility requirements are dependent upon certain characteristics of the loan under review.

(1) A loan that was current when placed in nonaccrual status pursuant to § 621.6(a)(1) may be reinstated to accrual status if the known risks to the continued collection of principal or interest have been mitigated. If the loan was past due when placed in nonaccrual status, it may only be reinstated under either paragraph (a)(2) or (a)(3) of this section, as applicable.

(2) A loan placed in nonaccrual status when past due and not adequately secured must remain current on contractual payments for a period of sustained performance before it may be reinstated.

(3) A loan placed in nonaccrual status when past due and adequately secured must have a recent repayment pattern demonstrating future repayment capacity to make on-time payments before it may be reinstated. The repayment pattern is established in one of two ways:

(i) Sustained performance in making on-time contractual payments, or

(ii) A recent history of making on-time partial payments in amounts the same or greater than newly restructured payment amounts.

(b) Nothing in this section prevents a current loan from being reinstated to accrual status in response to a Credit Review Committee decision issued under section 4.14D(d) of the Farm Credit Act of 1971, as amended, when that decision was made in compliance with applicable laws, regulations, and in accordance with generally accepted accounting principles.

[85 FR 52254, Aug. 25, 2020]

§ 621.10 Monitoring of performance categories and other property owned.

(a) Each institution shall:

(1) Account for, report, and disclose to shareholders, investors, boards of directors, and the Farm Credit Administration all material items with respect to performance categories and other property owned in accordance with the rules and definitions set forth in this part and any other applicable requirements;

(2) In accordance with § 620.5(g)(1)(iv)(A) of this chapter, disclose to shareholders, investors, boards of directors, and the Farm Credit Administration the nature and extent of significant potential credit risks within the loan portfolio, or other information that could adversely impact performance of the loan portfolio in the near future;

(3) Develop, adopt, and consistently apply policies and procedures governing performance categories and other property owned, which, at a minimum, conform to the definitions, rules, and standards set forth in this part and such other requirements and procedures as may be required by the Farm Credit Administration;

(4) Review the loan portfolio at least quarterly to ensure that all high-risk loans have been assigned the appropriate performance category; and

(5) Review all high-risk loans in the loan portfolio at least quarterly to determine the collectibility of accrued but uncollected income, if any.

(b) Measures taken to enhance the collectibility of a loan shall not be deemed to relieve an institution of the requirement to monitor and evaluate the loan for the purpose of determining its performance status.

Subpart D—-Reports of Condition and Performance and Accounts and Exposures

§ 621.12 Reports of condition and performance.

(a) Each institution, including the Federal Agricultural Mortgage Corporation, shall prepare and file such reports of condition and performance as may be required by the Farm Credit Administration.

(b) Reports of condition and performance shall be filed four times each year, and at such other times as the Farm Credit Administration may require. The reports shall be prepared on the accrual basis of accounting and shall fairly represent the financial condition and performance of each institution at the end of, and over the period of, each calendar quarter, provided that such additional reports as may be necessary to ensure timely, complete, and accurate monitoring and evaluation of the affairs, condition, and performance of Farm Credit institutions may be required, as determined by the Chief Examiner, Farm Credit Administration.

(c) All reports of condition and performance shall be submitted electronically in accordance with the instructions prescribed by the Farm Credit Administration and located on its Web site.

[58 FR 48786, Sept. 20, 1993, as amended at 74 FR 28600, June 17, 2009]

§ 621.13 Content and standards—general rules.

Each institution, including the Federal Agricultural Mortgage Corporation, shall prepare reports of condition and performance:

(a) In accordance with all applicable laws, regulations, standards, and such instructions and specifications and on such media as may be prescribed by the Farm Credit Administration;

(b) In accordance with generally accepted accounting principles and such other accounting requirements, standards, and procedures as may be prescribed by the Farm Credit Administration; and

(c) In such manner as to facilitate their reconciliation with the books and records of reporting institutions.

§ 621.14 Certification of correctness.

Each report of financial condition and performance filed with the Farm Credit Administration shall be certified as having been prepared in accordance with all applicable regulations and instructions and to be a true and accurate representation of the financial condition and performance of the institution to which it applies. The reports shall be certified by the officer of the reporting institution named for that purpose by action of the reporting institution's board of directors. If the board of directors of the institution has not acted to name an officer to certify the correctness of its reports of condition and performance, then the reports shall be certified by the president or chief executive officer of the reporting institution.

§ 621.15 Reports of accounts and exposures.

(a) *Responsibilities of banks and associations for preparing and submitting reports.* The banks and associations must prepare and submit an accurate and complete report of all bank and association accounts and exposures electronically to the Farm Credit Administration pursuant to the requirements of this part. In order to accomplish such submission, each bank and association must:

(1) Prepare and submit an accurate and complete report of its accounts and exposures electronically to the Reporting Entity:

(i) In accordance with the instructions prescribed by the Farm Credit Administration, or as may be required by the Farm Credit Administration; and

(ii) Within 20 calendar days after each quarter-end date, and at such other times as the Farm Credit Administration may require.

(2) Submit to the Farm Credit Administration and the Reporting Entity a written certification that the information provided in the report of accounts and exposures has been prepared in accordance with all applicable regulations and instructions, and is a true

and accurate record of the data maintained by the bank or association, to the best of its knowledge and belief. The reports shall be certified by the officer of the reporting bank or association named for that purpose by action of the reporting bank's or association's board of directors. If the board of directors of the bank or association has not acted to name an officer to certify to the accuracy of its reports of accounts and exposures, then the reports shall be certified by the president or chief executive officer of the reporting bank or association. In the event the bank or association learns of a material error or misstatement in the information submitted to the Reporting Entity, it must notify the Reporting Entity and the Farm Credit Administration immediately of the error or misstatement and prepare and submit corrected information as soon as practicable.

(3) Respond promptly to any questions by the Reporting Entity related to information provided under this section in connection with the preparation of a report of accounts and exposures, including any data required to establish, implement and maintain consistent, accurate, and complete shared asset identification and reporting of shared asset exposures to the Farm Credit Administration.

(4) Develop, implement, and maintain an effective system of internal controls over the data included in the report of accounts and exposures, including controls for maintaining the confidentiality of borrower information. The system of internal controls, at a minimum, must comply with the requirements of applicable Farm Credit Administration regulations, including § 618.8430 of this chapter.

(b) *Responsibilities of the Reporting Entity for preparing and submitting reports.* The Reporting Entity must:

(1) Collect, store, and manage the information submitted to it by each bank and association under the requirements of this section in a central data repository in accordance with Farm Credit Administration regulations and prescribed instructions.

(2) Prepare and submit an electronic quarterly report of the accounts and exposures of all banks and associations to the Farm Credit Administration in accordance with the instructions prescribed by the Farm Credit Administration or as may be required by the Farm Credit Administration.

(3) Establish, implement, and maintain an automated mechanism to ensure the reliable, timely, accurate and consistent identification of the banks' and associations' shared asset exposures, and report these exposures and the shared asset identifiers in the electronic quarterly report of accounts and exposures to the Farm Credit Administration. In connection with establishing and implementing the automated shared asset identification mechanism, the Reporting Entity may provide the banks and associations information from the central data repository to identify and report shared asset exposures.

(4) Submit to the Farm Credit Administration a written certification that the information provided to the Farm Credit Administration in the report of accounts and exposures of all banks and associations accurately represents the information provided to it by the banks and associations and that the Reporting Entity has complied with the requirements of § 621.15(b). The reports shall be certified by the president or chief executive officer of the Reporting Entity. In the event the Reporting Entity learns of a material error or misstatement in the information submitted to the Farm Credit Administration, it must notify the Farm Credit Administration immediately of the error or misstatement and prepare and submit corrected information as soon as practicable.

(5) Develop, implement, and maintain an effective system of internal controls over the central data repository, including controls for maintaining the confidentiality of borrower information. The system of internal controls, at a minimum, must comply with the requirements of applicable Farm Credit Administration regulations, including § 618.8430 of this chapter and require that the Reporting Entity:

(i) Develop policies and procedures to ensure that the information submitted in the report of accounts and exposures to the Farm Credit Administration is

complete and consistent with the information submitted to the Reporting Entity from the banks and associations under § 621.15(a); and

(ii) Specify procedures for monitoring any material corrections or adjustments, in a timely manner, and provide timely notification and resubmission of the report of accounts and exposures to the Farm Credit Administration.

(6) Notify the Farm Credit Administration if it is unable to prepare and submit the quarterly report of accounts and exposures in compliance with the requirements of § 621.15(b)(1) through (b)(3). The notification:

(i) Must be signed by the chief executive officer, or person in an equivalent position, and submitted to the Farm Credit Administration as soon as the Reporting Entity becomes aware of its inability to comply;

(ii) Must explain the reasons for its inability to prepare and submit the report; and

(iii) May include a request that the Farm Credit Administration extend the due date for the quarterly report of accounts and exposures.

(7) In the event there is a breach of information, immediately provide written notice of the breach to:

(i) The Farm Credit Administration; and

(ii) Each bank and association concerned;

(iii) For the purposes of this section, ''breach of information'' means any actual or attempted unauthorized access, possession, use, disclosure, disruption, modification, or destruction of information in the central data repository, any reports of accounts and exposures, or any other information received pursuant to § 621.15(a)(1).

(8) Notify the Farm Credit Administration in writing of any request for data contained in the reports of accounts and exposures that are not explicitly allowed for in § 618.8320(b) of this chapter.

[78 FR 77562, Dec. 24, 2013]

Subpart E—Auditor Independence

SOURCE: 71 FR 76120, Dec. 20, 2006, unless otherwise noted.

§ 621.30 General.

Each Farm Credit institution must ensure the independence of all qualified public accountants conducting the institution's audit by establishing and maintaining policies and procedures governing the engagement of external auditors. The policies and procedures must incorporate the provisions of this subpart and § 612.2260 of this chapter.

EFFECTIVE DATE NOTE: At 86 FR 58559, Oct. 22, 2021, § 621.30 was amended in the last sentence by removing the phrase ''§ 612.2260 of this chapter'' and adding in its place the phrase ''§ 612.2180 of this chapter.'', effective Jan. 1, 2023.

§ 621.31 Non-audit services.

Non-audit services are any professional services provided by a qualified public accountant during the period of an audit engagement which are not connected to an audit or review of an institution's financial statements.

(a) A qualified public accountant engaged to conduct a Farm Credit institution's audit may not perform the following non-audit services for that institution:

(1) Bookkeeping,

(2) Financial information systems design,

(3) Appraisal and valuation services,

(4) Actuarial services,

(5) Internal audit outsourcing services,

(6) Management or human resources functions,

(7) Legal and expert services unrelated to the audit, and

(8) Advocating an institution's interests in litigation, regulatory or administrative investigations and proceedings unrelated to external audit work.

(b) A qualified public accountant engaged to conduct a Farm Credit institution's audit may only perform non-audit services, not otherwise prohibited in this section, if the institution's audit committee pre-approves the services and the services are fully disclosed in the annual report.

§ 621.32 Conflicts of interest and rotation.

(a) *Conflicts of interest.* (1) A Farm Credit institution may not engage a qualified public accountant to conduct

the institution's audit if the accountant uses a partner, concurring partner, or lead member in the audit engagement team who was a director, officer or employee of the Farm Credit institution within the past year.

(2) A Farm Credit institution may not make an employment offer to a partner, concurring partner, or lead member serving on the institution's audit engagement team during the audit or within 1 year of the conclusion of the audit engagement.

(b) *Rotation.* Each institution may engage the same lead and reviewing audit partners of a qualified public accountant to conduct the institution's audit for no more than 5 consecutive years. The institution must then require the lead and reviewing audit partners assigned to the institution's audit team to rotate out of the audit team for 5 years. At the end of 5 years, the institution may again engage the audit services of those lead and reviewing audit partners.

PART 622—RULES OF PRACTICE AND PROCEDURE

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AUTHORITY: Secs. 5.9, 5.10, 5.17, 5.25–5.37 of the Farm Credit Act (12 U.S.C. 2243, 2244, 2252, 2261–2273); 28 U.S.C. 2461 note; and 42 U.S.C. 4012a(f).

SOURCE: 51 FR 21139, June 11, 1986, unless otherwise noted.

Subpart A—Rules Applicable to Formal Hearings

§ 622.1 Scope of regulations.

This subpart prescribes rules of practice and procedure in connection with any formal hearing before the Farm