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§ 619.9260 Primary security.

The basic collateral securing the loan.

§ 619.9270 Qualified Public Accountant or External Auditor.

A qualified public accountant or external auditor is a person who:

(a) Holds a valid and unrevoked certificate, issued to such person by a legally constituted State authority, identifying such person as a certified public accountant;

(b) Is licensed to practice as a public accountant by an appropriate regulatory authority of a State or other political subdivision of the United States;

(c) Is in good standing as a certified and licensed public accountant under the laws of the State or other political subdivision of the United States in which is located the home office or corporate office of the institution that is to be audited;

(d) Is not suspended or otherwise barred from practice as an accountant or public accountant before the Securities and Exchange Commission (SEC) or any other appropriate Federal or State regulatory authority; and

(e) Is independent of the institution that is to be audited. For the purposes of this definition, the term ''independent'' has the same meaning as under the rules and interpretations of the authoritative body governing overall audit performance. At a minimum, an accountant hired to audit a System institution is not independent if he or she functions in the role of management, audits his or her own work, or serves in an advocacy role for the institution.

[71 FR 76119, Dec. 20, 2006, as amended at 74 FR 28599, June 17, 2009]

§ 619.9310 Senior officer.

The Chief Executive Officer, the Chief Operations Officer, the Chief Financial Officer, the Chief Credit Officer, and the General Counsel, or persons in similar positions; and any other person responsible for a major policymaking function.

[71 FR 5764, Feb. 2, 2006]

§ 619.9320 Shareholder or stockholder.

A holder of any equity interest in a Farm Credit institution.

[75 FR 18744, Apr. 12, 2010]

§ 619.9330 Speculative purposes.

To buy or sell with the expectation of profiting by fluctuations in price.

[40 FR 49078, Oct. 21, 1975]

§ 619.9335 Supplemental retirement plan or supplemental executive retirement plan.

A nonqualified retirement plan that provides benefits in addition to those covered by other retirement plans for all employees and funded in whole or part by a Farm Credit institution.

[77 FR 60596, Oct. 3, 2012]

§ 619.9338 Unincorporated business entities.

An *Unincorporated Business Entity* means a Limited Partnership (LP), Limited Liability Partnership (LLP), Limited Liability Limited Partnership (LLLP), Limited Liability Company (LLC), Business or other Trust Entity (TE), or other business entity established and maintained under State law that is not incorporated under any law or chartered under Federal law.

[78 FR 31834, May 28, 2013]

§ 619.9340 Variable interest rate.

An interest rate on the outstanding loan balances, which may be changed from time to time during the period of the loan, if provision is made in the note or loan document.

PART 620—DISCLOSURE TO SHAREHOLDERS

Subpart A—General

Sec.
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Subpart F—Bank and Association Audit and Compensation Committees

620.30 Audit committees.
620.31 Compensation committees.

AUTHORITY: Secs. 4.3, 4.3A, 4.19, 5.9, 5.17, 5.19 of the Farm Credit Act (12 U.S.C. 2154, 2154a, 2207, 2243, 2252, 2254); sec. 424 of Pub. L. 100–233, 101 Stat. 1568, 1656; sec. 514 of Pub. L. 102–552, 106 Stat. 4102.

Subpart A—General

§ 620.1 Definitions.

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

(a) *Affiliated organization* means any organization, other than a Farm Credit organization, of which a director, senior officer or nominee for director of the reporting institution is a partner, director, officer, or majority shareholder.

(b) *Association* means any of the associations as described in § 619.9050 of this chapter.

(c) *Bank* means any of the Farm Credit banks as described in § 619.9140 of this chapter.

(d) *Direct lender association* means any association that is a direct lender as described in § 619.9135 of this chapter.

(e) *Immediate family* means spouse, parents, siblings, children, mothers- and fathers-in-law, brothers- and sisters-in-law, and sons- and daughters-in-law.

(f) *Institution* means any bank or association chartered by the Act.

(g) *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, loans originated through direct negotiations between the reporting institution and a borrower; purchased loans or interests in loans, including participation interests, retained subordinated participation interests in loans sold, interests in pools of subordinated participation interests that are held in lieu of retaining a subordinated participation interest in loans sold; contracts of sale; notes receivable; and other similar obligations and lease financings.

(h) *Material*. The term *material*, when used to qualify a requirement to furnish information as to any subject, limits the information required to those matters to which there is a substantial likelihood that a reasonable person would attach importance in making shareholder decisions or determining the financial condition of the institution.

(i) *Normal risk of collectibility* means the ordinary risk inherent in the lending operation. Loans that are deemed to have more than a normal risk of collectibility include, but are not limited to, any adversely classified loans.

(j) *Permanent capital* shall have the same meaning as set forth in § 615.5201 of this chapter.

(k) *Protected borrower capital* means eligible borrower stock as defined in § 615.5260 of this chapter.

(l) *Related association* means an association within the reporting bank's chartered territory that generates loans for the bank or whose operations the bank funds.

(m) *Related bank* means a reporting association's funding bank or the bank for which it generates loans.

(n) *Related organization* means any Farm Credit institution that is a

shareholder of the reporting institution or in which the reporting institution has an ownership interest.

(o) *Report* refers to the annual report, quarterly report, notice, or information statement, regardless of form, required by this part unless otherwise specified.

(p) Signed, when referring to paper form, means a manual signature, and, when referring to electronic form, means marked in a manner that authenticates each signer's identity.

(q) *Significant event* means any event that is likely to have a material impact on the reporting institution's financial condition, results of operations, cost of funds, or reliability of sources of funds. The term ''significant event'' includes, but is not limited to, actual or probable noncompliance with the regulatory minimum permanent capital standards or capital adequacy requirements, stock impairment, the imposition of or entering into enforcement actions, execution of financial assistance agreements with other institutions, collateral deficiencies that impact a bank's ability to obtain loan funds, or defaults on debt obligations.

[51 FR 8656, Mar. 13, 1986, as amended at 51 FR 42086, Nov. 21, 1986; 53 FR 3337, Feb. 5, 1988; 56 FR 29421, June 27, 1991; 56 FR 42649, Aug. 28, 1991; 58 FR 48791, Sept. 20, 1993; 59 FR 37406, July 22, 1994; 62 FR 15092, Mar. 31, 1997; 63 FR 39229, July 22, 1998; 67 FR 16633, Apr. 8, 2002; 70 FR 35357, June 17, 2005; 71 FR 5764, Feb. 2, 2006; 75 FR 18744, Apr. 12, 2010]

§ 620.2 Preparing and filing reports.

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

(a) Copies of each report required by this part, including financial statements and related schedules, exhibits, and all other papers and documents that are a part of the report, must be sent to the Farm Credit Administration according to our instructions. Submissions must comply with the requirements of § 620.3 of this part. The Farm Credit Administration must receive the report within the period prescribed under applicable subpart sections.

(b) The reports must be available for public inspection at the issuing institution and the Farm Credit Administration office with which the reports are filed. Farm Credit bank reports must also be available for public inspection at each related association's office(s).

(c) The reports sent to shareholders must comply with the requirements of § 620.3 and electronic delivery of those reports requires shareholder agreement.

(d) Information in any part of a report may be incorporated by reference in answer or partial answer to any other item of the report, unless instructions for the report state otherwise.

(e) All items of essentially the same character as items required to be reported in the reports of condition and performance pursuant to part 621 of this chapter shall be prepared in accordance with the rules set forth in part 621.

(f) No disclosure required by subparts B and E of this part shall be deemed to violate any regulation of the Farm Credit Administration.

(g) Each Farm Credit institution shall present its reports in accordance with generally accepted accounting principles and in a manner that provides the most meaningful disclosure to shareholders.

(1) Any Farm Credit institution that presents its annual and quarterly financial statements on a combined or consolidated basis shall also include in the report the statement of condition and statement of income of the institution on a stand-alone basis. The stand-alone statements may be in summary form and shall disclose the basis of presentation if different from accounting policies of the combined or consolidated statements.

(2) Any Farm Credit bank that prepares its annual financial statements on a stand-alone basis must also provide financial information on its related associations as part of its annual report. The information on the related associations must be presented on a combined basis with the bank's financial information and, at a minimum, include both a condensed statement of condition and a statement of income. The combined bank and association financial information may either be in the footnotes of the bank's annual report or located in a supplement to the

report. All combined information provided through either a footnote or a supplement will be considered part of the bank's annual report, subject to the same annual report preparation, distribution, and accuracy requirements of part 620.

(i) The combined bank and association financial information may be unaudited but must disclose the basis of presentation if different from accounting policies used for the bank-only financial statements.

(ii) If the combined bank and association financial information is presented in the form of a supplement, the supplement must be referenced within the bank's annual report and accompany the annual report when distributed.

(h)(1) Each institution's annual report or notice must state, in a prominent location within the report or notice:

(i) That the institution's quarterly reports are available free of charge on request;

(ii) The approximate dates the quarterly reports will be available; and

(iii) The telephone numbers and addresses (including information on any other distribution method the institution makes available) where shareholders can request or obtain copies of the quarterly reports.

(2) Each association must state, in a prominent location within each report:

(i) That the shareholders' investment in the association may be materially affected by the financial condition and results of operations of the related bank;

(ii) That (if not otherwise provided) a copy of the bank's financial reports to shareholders will be made available free of charge on request; and

(iii) The telephone numbers and addresses (including information on any other distribution method the association makes available) where shareholders can request or obtain copies of the related bank's financial reports.

(3) Each institution shall, after receiving a request for a report, provide the report to the requestor. The first copy of the requested report shall be provided to the requestor free of charge.

(i) Any events that have affected one or more related organizations of the reporting institution that are likely to have a material effect on the financial condition, results of operations, cost of funds, or reliability of sources of funds of the reporting institution shall be considered significant events for the reporting institution and shall be disclosed in the reports. Any significant event affecting the reporting institution that occurred during the preceding fiscal quarters that continues to have a material effect on the reporting institution shall be considered significant events of the current fiscal quarter and shall be disclosed in the reports.

[51 FR 8656, Mar. 13, 1986, as amended at 51 FR 21340, June 12, 1986; 56 FR 29421, June 27, 1991; 58 FR 27923, May 12, 1993; 58 FR 48791, Sept. 20, 1993; 62 FR 15092, Mar. 31, 1997; 66 FR 14301, Mar. 12, 2001; 67 FR 16633, Apr. 8, 2002; 71 FR 76119, Dec. 20, 2006; 77 FR 60597, Oct. 3, 2012; 85 FR 63430, Oct. 8, 2020]

§ 620.3 Accuracy of reports and assessment of internal control over financial reporting.

(a) *Prohibition against incomplete, inaccurate, or misleading disclosures.* No institution and no employee, officer, director, or nominee for director of the institution shall make any disclosure to shareholders or the general public concerning any matter required to be disclosed by this part that is incomplete, inaccurate, or misleading. When any such person makes disclosure that, in the judgment of the Farm Credit Administration, is incomplete, inaccurate, or misleading, whether or not such disclosure is made in disclosure statements required by this part, such institution or person shall make such additional or corrective disclosure as is necessary to provide shareholders and the general public with a full and fair disclosure. Unless otherwise determined by the Farm Credit Administration (FCA), the appropriate use of the limited disclosure authorized by § 628.62(c) of this chapter does not create an incomplete disclosure.

(b) *Signatures.* The name and position title of each person signing the report must be printed beneath his or her signature. If any person required to sign the report has not signed the report, the name and position title of the individual and the reason(s) such individual is unable or refuses to sign must be disclosed in the report. All reports

must be dated and signed on behalf of the institution by:

(1) The chief executive officer (CEO);

(2) The chief financial officer (CFO), or if the institution has no CFO, the officer responsible for preparing financial reports; and

(3) A board member formally designated by action of the board to certify reports on behalf of individual board members.

(c) *Certification of financial accuracy.* The report must be certified as financially accurate by the signatories to the report. If any signatory is unable to, or refuses to, certify the report, the institution must disclose the individual's name and position title and the reason(s) such individual is unable or refuses to certify the report. At a minimum, the certification must include a statement that:

(1) The signatories have reviewed the report,

(2) The report has been prepared in accordance with all applicable statutory or regulatory requirements, and

(3) The information is true, accurate, and complete to the best of signatories' knowledge and belief. If the report contains the limited disclosure authorized by §628.62(c) of this chapter, the statement may be modified to explain that the completeness of the report was determined in consideration of §628.62(c).

(d) *Management assessment of internal control over financial reporting.* Annual reports of those institutions with over $1 billion in total assets (as of the end of the prior fiscal year) must include a report by management assessing the effectiveness of the institution's internal control over financial reporting. The assessment must be conducted during the reporting period and be reported to the institution's board of directors. Quarterly and annual reports for those institutions with over $1 billion in total assets (as of the end of the prior fiscal year) must disclose any material change(s) in the internal control over financial reporting occurring during the reporting period.

[71 FR 76119, Dec. 20, 2006, as amended at 74 FR 28599, June 17, 2009; 86 FR 54357, Oct. 1, 2021]

Subpart B—Annual Report to Shareholders

§620.4 Preparing and providing the annual report.

(a) Each institution of the Farm Credit System must:

(1) Prepare and send to the Farm Credit Administration an electronic copy of its annual report within 75 calendar days of the end of its fiscal year;

(2) Publish a copy of its annual report on its Web site when it sends the report electronically to the Farm Credit Administration;

(3) Provide prior written notification to its shareholders that the institution will publish its annual report on the institution's Web site when the report is sent electronically to the Farm Credit Administration; and

(4) Within 90 calendar days of the end of its fiscal year, prepare and provide to its shareholders an annual report substantively identical to the copy of the report sent to the Farm Credit Administration under paragraph (a)(1) of this section.

(b)(1) A bank must provide its annual report to the shareholders of all related associations if the bank experiences a significant event that has a material effect on those associations.

(2) Any bank that is required by paragraph (b)(1) of this section to provide its annual report must coordinate its distribution with its related associations.

(c) The report must contain, at a minimum, the information required by §§620.5 and 620.6. In addition, the report must contain such other information as is necessary to make the required statements, in light of the circumstances under which they are made, not misleading.

[51 FR 8656, Mar. 13, 1986. Redesignated and amended at 56 FR 29421, 29422, June 27, 1991; 62 FR 15093, Mar. 31, 1997; 66 FR 14301, Mar. 12, 2001; 67 FR 16633, Apr. 8, 2002; 71 FR 76119, Dec. 20, 2006; 72 FR 68061, Dec. 4, 2007; 77 FR 60597, Oct. 3, 2012]

§620.5 Contents of the annual report to shareholders.

The report must contain the following items in substantially the same order:

(a) *Description of business.* The description must include a brief discussion of the following items:

(1) The territory served;

(2) The persons eligible to borrow;

(3) The types of lending activities engaged in and related services offered. Each bank shall also briefly describe the lending and related services offered by its related associations, as well as related services offered to the borrowers in the bank's chartered territory by any service corporation chartered under the Act in which it has an ownership interest. Each association shall briefly describe the lending and related services offered by its related organizations or incorporate by reference relevant portions of the related bank's report, if such report is provided to association shareholders;

(4) Any significant developments within the last 5 years that had or could have a material impact on earnings, interest rates to borrowers, patronage, or dividends, including, but not limited to, changes in the reporting entity, changes in patronage policies and practices, and financial assistance provided by or to the institution through loss-sharing or capital preservation agreements or from any other source;

(5) Any acquisition or disposition of material assets during the last fiscal year, other than in the ordinary course of business;

(6) Any material change during the last fiscal year in the manner of conducting the business;

(7) Any seasonal characteristics of the institution's business;

(8) Any concentrations of more than 10 percent of its assets in particular commodities or particular types of agricultural activity or business, and the institution's dependence, if any, upon a single customer, or a few customers, including other financing institutions (OFIs), the loss of any one of which would have a material effect on the institution; and

(9) A brief description of the business of any related Farm Credit institution, as described in § 619.9146 of this chapter, and the nature of the institution's relationship with such organization.

(10) For associations, in a separate section of the annual report, discuss the interdependent relationship between the association and its funding bank, including, but not limited to, the financial relationship, a service provider relationship, other material operational relationships, and other specific issues or areas that create a material interdependent relationship between the association and its funding bank. This separate section may incorporate by reference information from other sections of the annual report. At a minimum, the separate section must include the statement required by § 620.2(h)(2)(i) of this part and the following information required elsewhere in this section, if applicable:

(i) The association's obligation to borrow only from the bank unless the bank gives the association approval to borrow elsewhere;

(ii) The major terms of any capital preservation, loss sharing, or financial assistance agreements between the association and the bank;

(iii) Any statutory or bank bylaw provisions authorizing bank access to the capital of the association; and

(iv) The extent the bank assumed the association's exposure to interest rate risk.

(11) For banks and associations, business relationships with unincorporated business entities (UBEs).

(i) Except as provided in paragraph (a)(12)(ii) of this section, describe the business relationship with any UBE, as defined in § 611.1151 of this chapter, that was organized by the bank or association or in which the bank or association has an equity interest. Include in the description the name of the UBE, the type of business entity, the purpose for which the UBE was organized, the scope of its activities, and the level of ownership. If the bank or association does not have an equity interest, but manages the operations of a UBE that is controlled by a System institution, describe this business relationship and any fees received.

(ii) If the UBE is organized for the purpose of acquiring and managing unusual or complex collateral associated with loans, the bank or association need only disclose the name of the UBE, the type of business entity, and the purpose for which the UBE was organized.

(b) *Description of property*. State the location of and briefly describe the principal offices, i.e., headquarters, and major facilities where the institution makes and services its loans, and other materially important physical properties (other than property acquired in the course of collecting a loan) of the institution.

(c) *Legal proceedings and enforcement actions*. (1) Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the institution is a party, of which any of its property is the subject, or which involved claims that the institution may be required by contract or operation of law, to satisfy.

(2) Describe the type of and reason for each enforcement action in effect, i.e., agreements, cease and desist orders, temporary cease and desist orders, prohibitions and removals of officers or directors, or civil money penalties, if any, imposed or assessed on the institution or its officers or directors and the amount of any civil money penalties assessed.

(d) *Description of capital structure*. (1) Describe each class of stock and participation certificates the institution is authorized to issue and the rights, duties, and liabilities of each class. The description shall include:

(i) The number of shares of each class outstanding;

(ii) The par or face value;

(iii) The voting and dividend rights;

(iv) The order of priority upon impairment or liquidation;

(v) The institution's retirement policies and restrictions on transfer;

(vi) The statutory requirement that a borrower purchase stock as a condition to obtaining a loan;

(vii) The manner in which the stock is purchased (i.e., promissory note to the issuer, or cash not advanced by issuing institution);

(viii) The statutory authority of the institution to require additional capital contributions, if any; and

(ix) The statutory and regulatory restrictions regarding retirement of stock and distribution of earnings pursuant to § 615.5215 of this chapter, and any requirements to add capital under a plan approved by the Farm Credit Administration pursuant to § 615.5350, § 615.5351, § 615.5353, § 615.5357, or § 628.301 of this chapter.

(2) Describe regulatory minimum capital standards, and the institution's compliance with such standards. For banks, also discuss any related associations that are not currently in compliance with the standards.

(3) State whether the institution is currently prohibited from retiring stock or distributing earnings by the statutory and regulatory restrictions described in paragraph (d)(1)(ix) of this section, or knows of any reason such prohibitions may apply during the fiscal year subsequent to the fiscal year just ended.

(4) Describe the institution's capital adequacy requirements and the minimum stock purchase requirement in effect.

(e) *Description of liabilities*. (1) Describe separately the institution's insured and uninsured debt, indicating the type, amount, maturity, and interest rates of each category of obligations outstanding at the end of the fiscal year just ended. Describe the nature of the insurance provided under part E of title V of the Act. Describe any applicable statutory and regulatory restrictions on the institution's ability to incur debt.

(2) Describe fully the institution's rights and obligations under any agreement, formal or informal, between the institution and any other person or entity having to do with capital preservation, loss sharing, or any other form of financial assistance.

(3) Describe any statutory authorities or obligations to contribute to or on behalf of another institution of the Farm Credit System.

(4) Describe supplemental retirement plans funded by the institution on behalf of senior officers and employees. The description for each plan must include the:

(i) Plan name;

(ii) Present value of accumulated benefits;

(iii) Payments made during the reporting period;

(iv) Funded and unfunded obligations; and

(v) Off-balance sheet amounts, including benefits earned but not vested.

(f) *Selected financial data*. Furnish in comparative columnar form for each of the last 5 fiscal years the following financial data, if material:

(1) *For banks and direct lender associations*—(i) *Balance sheet*.

(A) Total assets.

(B) Investments.

(C) Loans.

(D) Allowance for losses.

(E) Net loans.

(F) Other property owned.

(G) Total liabilities.

(H) Obligations with maturities less than 1 year.

(I) Obligations with maturities longer than 1 year.

(J) Protected borrower capital.

(K) *At-risk capital*.

(*1*) Stock and participation certificates.

(*2*) Allocated surplus.

(*3*) Unallocated surplus.

(ii) *Statement of income*. (A) Net interest income.

(B) Provision for loan losses.

(C) Extraordinary items.

(D) Net income.

(iii) *Key financial ratios*. (A) Return on average assets.

(B) Return on average protected borrower capital and at-risk capital.

(C) Net interest margin as a percentage of average earning assets.

(D) Protected and at-risk capital-to-total assets.

(E) Net chargeoffs-to-average loans.

(F) Allowance for loan losses-to-loans.

(iv) *Net income distributed*. (A) Dividends.

(B) *Patronage refunds*.

(*1*) Cash.

(*2*) Stock.

(*3*) Allocated surplus.

(2) *For all banks (on a bank-only basis)*:

(i) Permanent capital ratio.

(ii) CET1 capital ratio.

(iii) Tier 1 capital ratio.

(iv) Total capital ratio.

(v) Tier 1 leverage ratio.

(3) *For all associations:*

(i) Permanent capital ratio.

(ii) CET1 capital ratio.

(iii) Tier 1 capital ratio.

(iv) Total capital ratio.

(v) Tier 1 leverage ratio.

(4) *For all banks (on a bank only basis) and for all associations*. The following ratios shall be disclosed in comparative columnar form in each annual report through fiscal year end 2021, only as long as these ratios are part of the previous 5 fiscal years of financial data required under paragraphs (f)(2) and (3) of this section:

(i) Core surplus ratio.

(ii) Total surplus ratio.

(iii) For banks only, net collateral ratio.

(g) *Management's discussion and analysis of financial condition and results of operations*. Fully discuss any material aspects of the institution's financial condition, changes in financial condition, and results of operations during the last 2 fiscal years, identifying favorable and unfavorable trends, and significant events or uncertainties. In addition to the items enumerated below, the discussion shall provide such other information as is necessary to an understanding of the institution's financial condition, changes in financial condition, and results of operations.

(1) *Loan portfolio*. (i) Describe the types of loans in the portfolio by major category (e.g., agricultural real estate mortgage loans, rural home loans, agricultural production loans, processing and marketing loans, farm business loans, and international loans), indicating the approximate percentage of the total dollar portfolio represented by each major category. Associations that make agricultural production loans shall provide the information required for such loans by major subcategory (e.g., cash grains, field crops, livestock, dairy, poultry, and timber). For each category and subcategory, discuss any special features of the loans that may be material to the evaluation of risk and any economic or business conditions that have had or are likely to have a material impact on their collectibility. For banks, also disclose separately the aggregate amount of loans outstanding to related associations and other financial institutions.

(ii) Describe the geographic distribution of the loan portfolio by State or other significant geographic division, if any.

(iii) *Purchases and sales of loans*. (A) Describe any material participation in

the Federal Agricultural Mortgage Corporation program or origination of loans for resale.

(B) Disclose the amount of purchased loans, loans sold with recourse, 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 the loans sold.

(iv) *Risk exposure*. For the periods covered by the financial statements provide:

(A) An analysis of high-risk assets and loan performance categories, to include, but not limited to, a discussion of 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;

(B) An analysis of the allowance for loan losses that includes the ratios of the allowance to loans and net chargeoffs to average loans, and a discussion of the adequacy of the allowance for losses;

(C) Financial assistance given or received under districtwide or System-wide loss-sharing or capital preservation agreements or otherwise;

(D) For banks, a description in the aggregate of the recent loss experience of related associations that are its shareholders, including the items enumerated in paragraphs (g)(1)(iv) (A), (B), and (C) of this section.

(E) Describe any material obligations with respect to loans sold and the amount of any material contributions made in connection with loans sold into the secondary market. Further disclose the amount of risk of loss associated with such obligations and the amount included in the allowance for losses to provide for such risk.

(2) *Results of operations*. (i) Describe, on a comparative basis, changes in the major components of net interest income during the last 2 fiscal years, describing significant factors that contributed to the changes and quantifying the amount of change(s) due to an increase in volume or the introduction of new services and the amount due to changes in interest rates earned and paid, based on averages for each period.

(ii) Describe any unusual or infrequent events or transactions or any significant economic changes, including, but not limited to, financial assistance received or paid that materially affected reported income. In each case, indicate the extent to which income was so affected.

(iii) Discuss the factors underlying the material changes, if any, in the return on average assets, the return on average protected borrower capital and at-risk capital, and the permanent capital ratio as determined in accordance with part 615, subpart H of this chapter. An explanation of the basis of the calculation of ratios relating to permanent capital and at-risk capital shall be included.

(iv) Describe, on a comparative basis, the major components of operating expense, indicating the reasons for significant increases or decreases.

(v) Describe any other significant components of income or expense, including, but not limited to, income from investments, that should be described in order to understand the institution's results of operations.

(vi) Discuss any events affecting a related organization that are likely to have a material effect on the reporting institution's financial condition, results of operations, cost of funds, or reliability of sources of funds.

(vii) Describe any known trends or uncertainties that have had, or that the institution reasonably expects will have, a material impact on net interest income or net income. Disclose any events known to management that will cause a material change in the relationship between costs and revenues.

(3) *Liquidity and funding sources*—(i) *Funding sources*. (A) Describe the average and year end amounts, maturities, and interest rates on outstanding consolidated System-wide debt obligations, bond obligations, or any other obligations used to fund the institution's lending operations.

(B) Describe existing lines of credit and their terms.

(C) Describe the institution's capital accounts and other sources of lendable funds.

(ii) *Liquidity*. (A) Discuss the institution's liquidity policy and the components of asset liquidity, including, but

not limited to, cash, investment securities, and maturing loan repayments. Assess the ability of the institution to generate adequate amounts of cash to fund its operations and meet its obligations.

(B) Discuss any known trends that are likely to result in a liquidity deficiency and the course of action management intends to take to resolve it. Discuss any material increase or decrease in liquidity that is likely to occur.

(C) Discuss the institution's participation in the Federal Agricultural Mortgage Corporation secondary market programs authorized by title VIII of the Act and the origination of loans for resale under other authorities, if any.

(iii) *Funds management.* (A) Discuss the institution's interest rate programs and the institution's ability to control interest rate margins.

(B) Discuss changes in net interest margin (net interest income as a percentage of average earning assets), explaining the reasons therefor.

(4) *Capital resources.* (i) Describe any material commitments to purchase capital assets and the anticipated sources of funding.

(ii) Describe any material trends or changes in the mix and cost of debt and capital resources. The discussion shall consider changes in permanent capital, CET1 capital, tier 1 capital, total capital, the tier 1 leverage ratio, debt, and any off-balance-sheet financial arrangements.

(iii) Describe any favorable or unfavorable trends in the institution's capital resources.

(iv) Discuss and explain any material changes in capital ratios, noting any material adverse variances from regulatory guidelines.

(v) Discuss the adequacy of the current capital position and any material changes in the capital plan adopted pursuant to § 615.5200 of this chapter, to the extent that such changes may have an effect on the institution's minimum stock purchase requirements and its ability to retire stock and distribute earnings.

(vi) Discuss any trends, commitments, contingencies, or events that are reasonably likely to have a materially adverse effect upon the institution's ability to meet the regulatory minimum capital standards and capital adequacy requirements.

(h) *Directors and senior officers.* In a separate section of the annual report, make the disclosures required in § 620.6 of this part.

(i) *Relationship with qualified public accountant.* (1) If a change or changes in qualified public accountants have taken place since the last annual report to shareholders or if a disagreement with a qualified public accountant has occurred that the institution would be required to report to the Farm Credit Administration under part 621 of this chapter, the information required by § 621.4(c) and (d) of this chapter must be disclosed.

(2) Disclose the total fees, by the category of services provided, paid during the reporting period to the qualified public accountant engaged to conduct the institution's financial statement audit. At a minimum, identify fees paid for audit services, tax services, and non-audit related services. The types of non-audit services must be identified and indicate audit committee approval of the services.

(j) *Financial statements.* (1) Furnish financial statements and related footnotes that have been prepared in accordance with generally accepted accounting principles and instructions and other requirements of the Farm Credit Administration and that have been audited in accordance with generally accepted auditing standards by a qualified public accountant and an opinion expressed thereon. The statements shall include the following statements and related footnotes for the last 3 fiscal years: balance sheet, statement of income, statement of changes in protected borrower capital and at-risk capital, and statement of cash flows.

(2) State that the financial statements were prepared under the oversight of the audit committee, identifying the members of the audit committee.

(k) *Credit and services to young, beginning, and small farmers and ranchers and producers or harvesters of aquatic products.* (1) Each direct lender association must describe the YBS demographics

in its territory and the source of the demographic data. If there are differences in the methods by which the demographic and YBS data are presented, these differences must be described.

(2) Each direct lender association must provide a description of its YBS program, including a status report on each program component as set forth in § 614.4165(c) of this chapter and the definitions of ''young,'' ''beginning,'' and ''small'' farmers and ranchers. The discussion must provide such other information necessary for a comprehensive understanding of the direct lender association's YBS program and its results.

(3) Each Farm Credit bank must include a summary report of the quantitative YBS data from its affiliated direct lender associations as described in FCA's instructions for the annual YBS yearend report. The report must include the definitions of ''young,'' ''beginning,'' and ''small'' farmers and ranchers. A narrative report may be necessary for an ample understanding of the YBS mission results.

[51 FR 8656, Mar. 13, 1986, as amended at 69 FR 16471, Mar. 30, 2004; 70 FR 53909, Sept. 13, 2005; 71 FR 5764, Feb. 2, 2006; 71 FR 76119, Dec. 20, 2006; 72 FR 4414, Jan. 31, 2007; 74 FR 28599, June 17, 2009; 75 FR 18744, Apr. 12, 2010; 77 FR 60597, Oct. 3, 2012; 78 FR 31834, May 28, 2013; 79 FR 17856, Mar. 31, 2014; 81 FR 49778, July 28, 2016; 86 FR 54357, Oct. 1, 2021]

§ 620.6 Disclosures in the annual report to shareholders relating to directors and senior officers.

(a) *General.* (1) List the names of all directors and senior officers of the institution, indicating the position title and term of office of each director, and the position, title, and date each senior officer commenced employment in his or her current position.

(2) Briefly describe the business experience during the past 5 years of each director and senior officer, including each person's principal occupation and employment during the past 5 years.

(3) For each director and senior officer, list any other business interest where the director or senior officer serves on the board of directors or as a senior officer. Name the position held and state the principal business in which the business is engaged.

(b) *Compensation of directors.* Describe the arrangements under which directors of the institution are compensated for all services as a director (including total cash compensation and noncash compensation). Noncash compensation with an annual aggregate value of less than $5,000 does not have to be reported. State the total cash and reportable noncash compensation paid to all directors as a group during the last fiscal year. For the purposes of this paragraph, disclosure of compensation paid to and days served by directors applies to any director who served in that capacity at any time during the reporting period. If applicable, describe any exceptional circumstances justifying the additional director compensation as authorized by § 611.400(c) of this chapter. For each director, state:

(1) The number of days served at board meetings;

(2) The total number of days served in other official activities, including any board committee(s);

(3) Any additional compensation paid for service on a board committee, naming the committee; and

(4) The total cash and noncash compensation paid to each director during the last fiscal year. Reportable compensation includes cash and the value of noncash items provided by a third party to a director for services rendered by the director on behalf of the reporting Farm Credit institution. Noncash compensation with an annual aggregate value of less than $5,000 does not have to be reported.

(c) *Compensation of senior officers.* Disclose the information on senior officer compensation and compensation plans as required by this paragraph. The institution must disclose the total amount of compensation paid to senior officers in substantially the same manner as the tabular form specified in the Summary Compensation Table (Compensation Table), located in paragraph (c)(3) of this section.

(1) For each of the last 3 completed fiscal years, report the total amount of compensation paid and the amount of each component of compensation paid to the institution's chief executive officer (CEO), naming the individual. If more than one person served in the capacity of CEO during any given fiscal

year, individual compensation disclosures must be provided for each CEO.

(2) For each of the last 3 completed fiscal years, report the aggregate amount of compensation paid, and the components of compensation paid, to all senior officers as a group, stating the number of officers in the group without naming them.

(i) If applicable, when any employee who is not a senior officer has annual compensation at a level that is among the five highest paid by the institution during the reporting period, include the highly compensated employee(s) in the aggregate number and amount of compensation reported in the Compensation Table. However, exclude any such employee from the Compensation Table if the employee would be considered highly compensated solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan.

(ii) The report containing the aggregate compensation disclosure must include a statement that disclosure of information on the total compensation paid during the last fiscal year to any senior officer, or to any other employee included in the aggregate, is available and will be disclosed to shareholders of the institution and shareholders of related associations (if applicable) upon request. This statement must be located directly beneath the Compensation Table.

(3) The institution must complete the Compensation Table, or something substantially similar, according to the following instructions:

SUMMARY COMPENSATION TABLE

	Annual					
Name of individual or number in group	Year	Salary	Bonus	Deferred/ perquisite	Other	Total
(a)	(b)	(c)	(d)	(e)	(f)	(g)
CEO	20XX 20XX 20XX	$	$	$	$	$
Aggregate No. of Senior Officers (*& other highly compensated employees, if applicable*):						
(X)	20XX					
(X)	20XX					
(X)	20XX					

(i) Amounts shown as ''Salary'' (column (c)) and ''Bonus'' (column (d)) must reflect the dollar value of salary and bonus earned by the senior officer during the fiscal year. Amounts contributed during the fiscal year by the senior officer pursuant to a plan established under section 401(k) of the Internal Revenue Code, or similar plan, must be included in the salary column or bonus column, as appropriate. If the amount of salary or bonus earned during the fiscal year is not calculable by the time the report is prepared, the reporting institution must provide its best estimate of the compensation amount(s) and disclose that fact in a footnote to the table.

(ii) Amounts shown as ''deferred/perquisites'' (column (e)) must reflect the dollar value of other annual compensation not properly categorized as salary or bonus, including but not limited to:

(A) Deferred compensation earned during the fiscal year, whether or not paid in cash; or

(B) Perquisites and other personal benefits, including the value of noncash items, unless the annual aggregate value of such perquisites is less than $5,000. Reportable perquisites include cash and the value of noncash items provided by a third party to a senior officer for services rendered by the officer on behalf of the reporting institution.

(iii) Compensation amounts reported under the category ''Other'' (column (f)) must reflect the dollar value of all other compensation not properly reportable in any other column. Items reported in this column must be specifically identified and described in a footnote to the table. ''Other'' compensation includes, but is not limited to:

(A) The amount paid to the senior officer pursuant to a plan or arrangement in connection with the resignation, retirement, or termination of such officer's employment with the institution.

(B) The amount of contributions by the institution on behalf of the senior officer to a vested or unvested defined contribution plan unless the plan is made available to all employees on the same basis.

(C) The dollar value of any tax reimbursement provided by the institution.

(D) Any changes in the value of pension benefits.

(iv) Amounts displayed under ''Total'' (column (g)) shall reflect the sum total of amounts reported in columns (c), (d), (e), and (f).

(4) If the institution provides a defined benefit plan or a supplemental executive retirement plan (SERP) to its senior officers, the institution must complete the following Pension Benefits Table, or something substantially similar, for each plan according to the following instructions:

PENSION BENEFITS TABLE

As of most recent fiscal year-end			
Name of individual	Years of credited service	Present value of accumulated benefits	Payments made during reporting period
CEO		$	$
Senior Officers as a Group (*& other highly compensated employees, if applicable*).			

(i) Report the credited years of service for the CEO and the average credited years of service for the senior officer group under the plan.

(ii) Report the present value of accumulated benefits for the CEO and the senior officer group under the plan.

(iii) Report payments made during the reporting period under the plan for the CEO and the senior officer group.

(5) Provide a description of all compensation, retirement, incentive, and performance plans (plans) pursuant to which cash or noncash compensation was paid or distributed during the last fiscal year, or is proposed to be paid or distributed in the future for performance during the last fiscal year, to those individuals included in the Compensation Table. Provide the information individually for the chief executive officer and as a group for the senior officers. Information provided for the senior officer group includes any highly compensated employees whose compensation is reported in the Compensation Table. The description of each plan must include, but not be limited to:

(i) A summary of how each plan operates and who is covered by the plan. The summary must include the criteria used to determine amounts payable, including any performance formula or measure, as well as the time period over which the measurement of compensation will be determined, payment schedules, and any material amendments to the plan during the last fiscal year.

(ii) The overall risk and reward structure of the plan as it relates to senior officers' compensation. The description must include, at a minimum, how each plan is compatible with and promotes the institution's goals and business strategy and the mission as a Government-sponsored enterprise.

(iii) A discussion of the relationship between the CEO and senior officers' compensation to the reporting institution's overall performance. The disclosure must also discuss the relationship between the CEO's and senior officers' compensation to their performance.

(6) Associations may disclose the information required by paragraph (c) of

this section in the Annual Meeting Information Statement (AMIS) pursuant to subpart E of this part. Associations exercising this option must include a reference in the annual report stating that the senior officer compensation information is included in the AMIS and that the AMIS is available for public inspection at the reporting association offices pursuant to § 620.2(b).

(d) *Travel, subsistence, and other related expenses.* (1) Briefly describe your policy addressing reimbursements for travel, subsistence, and other related expenses as it applies to directors and senior officers. The report shall include a statement that a copy of the policy is available to shareholders of the institution and shareholders of related associations (if applicable) upon request.

(2) For each of the last 3 fiscal years, state the aggregate amount of reimbursement for travel, subsistence, and other related expenses for all directors as a group.

(e) *Transactions with senior officers and directors.* (1) State the institution's policies, if any, on loans to and transactions with officers and directors of the institution.

(2) *Transactions other than loans.* For each person who served as a senior officer or director on January 1 of the year following the fiscal year of which the report is filed, or at any time during the fiscal year just ended, describe briefly any transaction or series of transactions other than loans that occurred at any time since the last annual meeting between the institution and such person, any member of the immediate family of such person, or any organization with which such person is affiliated.

(i) For transactions relating to the purchase or retirement of preferred stock issued by the institution, state the name of each senior officer or director that held preferred stock issued by the institution during the reporting period, the current amount of preferred stock held by the senior officer or director, the average dividend rate on the preferred stock currently held, and the amount of purchases and retirements by the individual during the reporting period.

(ii) For all other transactions, state the name of the senior officer or director who entered into the transaction or whose immediate family member or affiliated organization entered into the transaction, the nature of the person's interest in the transaction, and the terms of the transaction. No information need be given where the purchase price, fees, or charges involved were determined by competitive bidding or where the amount involved in the transaction (including the total of all periodic payments) does not exceed $5,000, or the interest of the person arises solely as a result of his or her status as a stockholder of the institution and the benefit received is not a special or extra benefit not available to all stockholders.

(3) *Loans to senior officers and directors.* (i) To the extent applicable, state that the institution (or in the case of an association that does not carry loans to its senior officers and directors on its books, its related bank) has had loans outstanding during the last full fiscal year to date to its senior officers and directors, their immediate family members, and any organizations with which such senior officers or directors are affiliated that:

(A) Were made in the ordinary course of business; and

(B) Were made on the same terms, including interest rate, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with other persons.

(ii) To the extent applicable, state that no loan to a senior officer or director, or to any organization affiliated with such person, or to any immediate family member who resides in the same household as such person or in whose loan or business operation such person has a material financial or legal interest, involved more than the normal risk of collectability; provided that no such statement need be made with respect to any director or senior officer who has resigned before the time for filing the applicable report with the Farm Credit Administration (but in no case later than the actual filing), or whose term of office will expire or terminate no later than the date of the meeting of stockholders to which the report relates.

(iii) If the conditions stated in paragraphs (e)(3)(i) and (ii) of this section

do not apply to the loans of the persons or organizations specified therein, with respect to such loans state:

(A) The name of the officer or director to whom the loan was made or to whose relative or affiliated organization the loan was made.

(B) The largest aggregate amount of each indebtedness outstanding at any time during the last fiscal year.

(C) The nature of the loan(s);

(D) The amount outstanding as of the latest practicable date.

(E) The reasons the loan does not comply with the criteria contained in paragraphs (e)(3)(i) and (e)(3)(ii) of this section.

(F) If the loan does not comply with paragraph (e)(3)(i)(B) of this section, the rate of interest payable on the loan and the repayment terms.

(G) If the loan does not comply with paragraph (e)(3)(ii) of this section, the amount past due, if any, and the reason the loan is deemed to involve more than a normal risk of collectability.

(f) *Involvement in certain legal proceedings*. Describe any of the following events that occurred during the past 5 years and that are material to an evaluation of the ability or integrity of any person who served as director or senior officer on January 1 of the year following the fiscal year for which the report is filed or at any time during the fiscal year just ended:

(1) A petition under the Federal bankruptcy laws or any State insolvency law was filed by or against, or a receiver, fiscal agent, or similar officer was appointed by a court for the business or property of such person, or any partnership in which such person was a general partner at or within 2 years before the time of such filing, or any corporation or business association of which such person was a senior officer at or within 2 years before the time of such filing;

(2) Such person was convicted in a criminal proceeding or is a named party in a pending criminal proceeding (excluding traffic violations and other misdemeanors);

(3) Such person was the subject of any order, judgment, or decree, not subsequently reversed, suspended, or vacated, by any court of competent jurisdiction, permanently or temporarily enjoining or otherwise limiting such person from engaging in any type of business practice.

[77 FR 60597, Oct. 3, 2012, as amended at 79 FR 17856, Mar. 31, 2014; 80 FR 10326, Feb. 26, 2015]

Subpart C—Quarterly Report

§ 620.10 Preparing the quarterly report.

(a) Each institution of the Farm Credit System must:

(1) Prepare and send to the Farm Credit Administration an electronic copy of its quarterly report within 40 calendar days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution;

(2) Publish a copy of its quarterly report on its Web site when it electronically sends the report to the Farm Credit Administration; and

(3) Ensure the report complies with the applicable provisions of §§ 620.2 and 620.3.

(b) The report shall contain, at a minimum, the information specified in § 620.11 and, in addition, such other material information (including significant events) as is necessary to make the required disclosures, in light of the circumstances under which they are made, not misleading.

(c) Institutions may use the quarterly report to deliver any notice required under § 620.15. Notices required under § 620.17 must be issued separately from the quarterly report, unless otherwise authorized by the Farm Credit Administration.

[62 FR 15093, Mar. 31, 1997, as amended at 71 FR 76120, Dec. 20, 2006; 74 FR 28600, June 17, 2009; 77 FR 60600, Oct. 3, 2012]

§ 620.11 Content of quarterly report to shareholders.

(a) *General*. The information required to be included in the quarterly report may be presented in any format deemed suitable by the institution, except as otherwise required by this section. The report must be organized in an easily understandable format and not presented in a manner that is misleading.

(b) *Rules for condensation.* For purposes of this section, major captions to be provided in the financial statements are the same as those provided in the financial statements contained in the institution's annual report to shareholders, except that the financial statements included in the quarterly report may be condensed into major captions in accordance with the rules prescribed under this paragraph. If any amount that would otherwise be required to be shown by this subpart with respect to any item is not material, it need not be separately shown. The combination of insignificant items is permitted.

(1) *Interim balance sheets.* When any major balance sheet caption is less than 10 percent of total assets and the amount in the caption has not increased or decreased by more than 25 percent since the end of the preceding fiscal year, the caption may be combined with others.

(2) *Interim statements of income.* When any major income statement caption is less than 15 percent of average net income for the 3 most recent fiscal years and the amount in the caption has not increased or decreased by more than 20 percent since the corresponding interim period of the preceding fiscal year, the caption may be combined with others. In calculating average net income, loss years should be excluded. If losses were incurred in each of the 3 most recent fiscal years, the average loss shall be used for purposes of this test.

(3) The interim financial information shall include disclosure either on the face of the financial statements or in accompanying footnotes sufficient to make the interim information presented not misleading. Institutions may presume that users of the interim financial information have read or have access to the audited financial statements for the preceding fiscal year and the adequacy of additional disclosure needed for a fair presentation may be determined in that context. Accordingly, footnote disclosure that would substantially duplicate the disclosure contained in the most recent audited financial statements (such as a statement of significant accounting policies and practices), and details of accounts that have not changed significantly in amount or composition since the end of the most recent completed fiscal year may be omitted. However, disclosure shall be provided of events occurring subsequent to the end of the most recent fiscal year that have a material impact on the institution. Disclosures should encompass, for example, significant changes since the end of the most recently completed fiscal year in such items as accounting principles and practices; estimates inherent in the preparation of financial statements; status of long-term contracts; capitalization, including significant new indebtedness or modification of existing financing agreements; and the reporting entity resulting from business combinations or dispositions.

(4) The interim financial statements furnished shall reflect all adjustments that are, necessary to a fair statement of the results for the interim periods presented. A statement to that effect shall be included. Furnish any material information necessary to make the information called for not misleading, such as a statement that the results for interim periods are not necessarily indicative of results to be expected for the year.

(c) *Required content.* A quarterly report must, at a minimum, contain the following items:

(1) *Management's discussion and analysis of financial condition and results of operations.* Discuss material changes, if any, to the information provided to shareholders pursuant to § 620.5(g) that have occurred during the periods specified in paragraphs (c)(2)(i) and (ii) of this section. Such additional information as is needed to enable the reader to assess material changes in financial condition and results of operations between the periods specified in paragraphs (c)(2)(i) and (ii) of this section shall be provided.

(i) *Material changes in financial condition.* Discuss any material changes in financial condition from the end of the preceding fiscal year to the date of the most recent interim balance sheet provided. If the interim financial statements include an interim balance sheet as of the corresponding interim date of the preceding fiscal year, any material changes in financial conditions from

that date to the date of the most recent interim balance sheet provided also shall be discussed. If discussions of changes from both the end and the corresponding interim date of the preceding fiscal year are required, the discussions may be combined at the discretion of the institution.

(ii) *Material changes in results of operations.* Discuss any material changes in the institution's results of operations with respect to the most recent fiscal year-to-date period for which an income statement is provided and the corresponding year-to-date period of the preceding fiscal year. Such discussion also shall cover material changes with respect to that fiscal quarter and the corresponding fiscal quarter in the preceding fiscal year. In addition, if the institution has elected to provide an income statement for the 12-month period ended as of the date of the most recent interim balance sheet provided, the discussion also shall cover material changes with respect to that 12-month period and the 12-month period ended as of the corresponding interim balance sheet date of the preceding fiscal year.

(2) *Interim financial statements.* The following financial statements must be provided:

(i) An interim balance sheet as of the end of the most recent fiscal quarter and as of the end of the preceding fiscal year. A balance sheet for the comparable quarter of the preceding fiscal year is optional.

(ii) Interim statements of income for the most recent fiscal quarter, for the period between the end of the preceding fiscal year and the end of the most recent fiscal quarter, and for the comparable periods for the previous fiscal year.

(iii) Interim statements of changes in protected borrower capital and at-risk capital for the period between the end of the preceding fiscal year and the end of the most recent fiscal quarter, and for the comparable period for the preceding fiscal year.

(iv) For banks, interim statements of cash flows for the period between the end of the preceding fiscal year and the end of the most recent fiscal quarter, and for the comparable period for the preceding fiscal year. For associations, interim statements of cash flows are optional.

(3) *Other related financial items.* State that the financial statements were prepared under the oversight of the audit committee. The interim financial information need not be audited or reviewed by a qualified public accountant or external auditor prior to filing. If, however, a review of the data is made in accordance with the established professional standards and procedures for such a review, the institution may state that a qualified public accountant or external auditor has performed such a review under the supervision of the institution's audit committee. If such a statement is made, the report of a qualified public accountant or external auditor on such review must accompany the interim financial information.

(d) *Notices.* Institutions using the quarterly report to deliver any notice required under § 620.15 must put the notice information at the beginning of the quarterly report. The notice must be conspicuous and may not be part of any footnotes to the quarterly report.

[51 FR 21341, June 12, 1986, as amended at 53 FR 3337, Feb. 5, 1988. Redesignated and amended at 56 FR 29421, 29424, June 27, 1991; 67 FR 16633, Apr. 8, 2002; 71 FR 5765, Feb. 2, 2006; 74 FR 28600, June 17, 2009; 77 FR 60600, Oct. 3, 2012]

Subpart D—Notice to Shareholders

SOURCE: 62 FR 15093, Mar. 31, 1997, unless otherwise noted.

§ 620.15 Notice of significant or material events.

When a Farm Credit bank or association determines that it has a significant or material event, the institution must prepare and provide to its shareholders and the Farm Credit Administration a notice disclosing the event(s).

(a) Each bank and association board of directors must establish and maintain a policy identifying the categories and types of events that may result in a notice under this section. At a minimum, events covered under this provision include significant events defined in § 620.1(q) and material events defined in § 620.1(h). The policy must identify

how the significance or materiality of an event will be determined.

(b) A notice issued under this section must be made as soon as possible, but not later than 90 days after occurrence of the event.

(1) Each institution must electronically provide the notice to the Farm Credit Administration at the same time as distribution of the notice to shareholders.

(2) Delivery of the notice to shareholders may be accomplished by direct communications with the shareholders, posting the notice on the institution's Web site, as part of the quarterly report to shareholders, or by publishing the notice in any publication with circulation wide enough to reasonably assure that all of the institution's shareholders have access to the information in a timely manner. No matter how the notice is distributed, it must comply with all the provisions of this section.

(c) Every notice must be dated and signed in a manner similar to the requirements of § 620.3(b).

(d) The information required to be included in a notice issued under this section must be conspicuous, easily understandable, complete, accurate, and not misleading.

(e) A Farm Credit System institution may be required to issue a notice under this section at the direction of the Farm Credit Administration.

[77 FR 60600, Oct. 3, 2012]

§ 620.17 Special notice provisions for events related to noncompliance with minimum regulatory capital ratios.

(a) For purposes of this section, ''regulatory capital ratios'' include the capital ratios specified in § 628.10 of this chapter and the permanent capital standard prescribed under § 615.5205 of this chapter.

(b) When a Farm Credit bank or association determines that it is not in compliance with one or more applicable minimum regulatory capital ratios, that institution must prepare and provide to its shareholders and the FCA a notice stating that the institution has initially determined it is not in compliance with the minimum regulatory capital ratio or ratios. Such notice must be given within 30 days following the month end.

(c) When notice is given under paragraph (b) of this section, the institution must also notify its shareholders and the FCA when the regulatory capital ratio or ratios that are the subject of such notice decrease by one half of 1 percent or more from the level reported in the original notice, or from that reported in a subsequent notice provided under this paragraph (c). This notice must be given within 45 days following the end of every quarter at which the institution's regulatory capital ratio or ratios decrease as specified.

(d) Each institution required to prepare a notice under paragraph (b) or (c) of this section shall provide the notice to shareholders or publish it in any publication with circulation wide enough to be reasonably assured that all of the institution's shareholders have access to the information in a timely manner. The information required to be included in this notice must be conspicuous, easily understandable, and not misleading.

(e) A notice, at a minimum, shall include:

(1) A statement that:

(i) Briefly describes the minimum regulatory capital ratios established by the FCA and the notice requirement of paragraph (b) of this section;

(ii) Indicates the institution's current level of capital; and

(iii) Notifies shareholders that the institution's capital is below the FCA minimum regulatory capital ratio or ratios.

(2) A statement of the effect that noncompliance has had on the institution and its shareholders, including whether the institution is currently prohibited by statute or regulation from retiring stock or distributing earnings or whether the FCA has issued a capital directive or other enforcement action to the institution.

(3) A complete description of any event(s) that may have significantly contributed to the institution's noncompliance with the minimum regulatory capital ratio or ratios.

(4) A statement that the institution is required by regulation to provide another notice to shareholders within 45

days following the end of any subsequent quarter at which the regulatory capital ratio or ratios decrease by one half of 1 percent or more from the level reported in the notice.

[81 FR 49778, July 28, 2016]

Subpart E—Annual Meeting Information Statements and Other Information To Be Furnished in Connection with Annual Meetings and Director Elections

§ 620.20 Preparing and distributing the information statement.

(a)(1) Each Farm Credit bank and association must prepare and provide an information statement (''statement'' or ''AMIS'') to its shareholders at least 10 business days, but not more than 30 business days, before any annual meeting or any director elections.

(2) Each Farm Credit bank and association must provide the Farm Credit Administration an electronic copy of the AMIS when issued.

(3) In addition to the mailed AMIS, each Farm Credit bank and association may post its AMIS on its Web site. Any AMIS posted on an institution's Web site must remain on the Web site for a reasonable period of time, but not less than 30 calendar days.

(b) Every AMIS must be dated and signed in accordance with the requirements of § 620.3(b) of this part.

(c) Every AMIS must be available for public inspection at all offices of the issuing institution pursuant to § 620.2(b) of this part.

[75 FR 18744, Apr. 12, 2010]

§ 620.21 Contents of the information statement.

(a) An AMIS must, at a minimum, address the following items:

(1) *Date, time, and place of the meeting(s).* Notice of the date, time, and meeting location(s) must be provided at least 10 business days, but no more than 30 business days, before the meeting. If the Farm Credit bank or association will use an online meeting space as part of its meeting, the notice must also specify the date, time, and means of accessing the online meeting space. This information does not need to be part of an AMIS issued by a Farm Credit bank if no meeting is held.

(2) *Voting shareholders.* For each class of stock entitled to vote at the meeting, state the number of shareholders entitled to vote and, when shareholders are asked to vote on preferred stock, the number of shares entitled to vote. State the record date as of which the shareholders entitled to vote will be determined and the voting requirements for each matter to be voted upon. If association directors are nominated or elected by region, describe the regions and state the number of voting shareholders entitled to vote in each region.

(3) *Financial updates.* Each AMIS must reference the most recently issued annual report required by subpart B of this part. The AMIS must also include such other information considered material and necessary to make the required contents of the AMIS, in light of the circumstances under which it is made, not misleading.

(i) If any transactions between the institution and its senior officers and directors of the type required to be disclosed in the annual report to shareholders under § 620.6(e), or any of the events required to be disclosed in the annual report to shareholders under § 620.6(f) have occurred since the end of the last fiscal year and were not disclosed in the annual report to shareholders, the disclosures required by § 620.6(e) and (f) shall be made with respect to such transactions or events in the information statement. If any material change in the matters disclosed in the annual report to shareholders pursuant to § 620.6(e) and (f) has occurred since the annual report to shareholders was prepared, disclosure shall be made of such change in the information statement.

(ii) If a Farm Credit institution has had a change or changes in its external auditor(s) since the last annual report to shareholders, or if a disagreement with an external auditor has occurred, the institution shall disclose the information required by § 621.4(c) and (d) of this chapter.

(4) *Directors.* State the names and ages of persons currently serving as directors of the institution, their terms of office, and the periods during which

such persons have served. Institutions must also state the type or types of agriculture or aquaculture engaged in by each director. No information need be given with respect to any director whose term of office as a director will not continue after any meeting to which the statement relates.

(i) Identify by name any incumbent director who attended fewer than 75 percent of the board meetings or any meetings of board committees on which he or she served during the last fiscal year.

(ii) If any director resigned or declined to stand for reelection since the last annual meeting because of a policy disagreement with the board, and if the director has provided a notice requesting disclosure of the nature of the disagreement, state the date of the director's resignation and summarize the director's description of the disagreement. If the institution holds a different view of the disagreement, the institution's view may be summarized as well.

(b) An AMIS issued for director elections must also include the information required by this paragraph.

(1) Provide the nominating committee's slate of director-nominees. If fewer than two director-nominees for each position are named, describe the efforts of the nominating committee to locate two willing nominees.

(2) Provide, as part of the AMIS, the director-nominee disclosure information collected under § 611.330 of this chapter. Institutions may either restate such information in a standard format or provide complete copies of each nominee's disclosure statement.

(3) State whether nominations will be accepted from the floor and explain the procedures for making floor nominations.

(c) When the nominating committee will be elected during director elections, notice to voting shareholders of this event must be included in the AMIS. The AMIS must describe the balloting procedures that will be used to elect the nominating committee, including whether floor nominations for committee members will be permitted. The AMIS must state the number of committee positions to be filled and the names of the nominees for the committee.

(d) If shareholders are asked to vote on matters not normally required to be submitted to shareholders for approval, the AMIS must describe fully the material circumstances surrounding the matter, the reason shareholders are asked to vote, and the vote required for approval of the proposition. The AMIS must describe any other matter that will be discussed at the meeting upon which shareholder vote is not required.

[75 FR 18744, Apr. 12, 2010, as amended at 77 FR 60601, Oct. 3, 2012]

Subpart F—Bank and Association Audit and Compensation Committees

SOURCE: 71 FR 5766, Feb. 2, 2006, unless otherwise noted.

§ 620.30 Audit committees.

Each Farm Credit bank and association must establish and maintain an audit committee. An audit committee is established by adopting a written charter describing the committee's composition, authorities, and responsibilities in accordance with this section. All audit committees must maintain records of meetings, including attendance, for at least 3 fiscal years.

(a) *Composition.* Each member of an audit committee must be a member of the Farm Credit institution's board of directors. An audit committee may not consist of less than three members and must include any director designated as a financial expert under § 611.210(a)(2) of this chapter. All audit committee members should be knowledgeable in at least one of the following: Public and corporate finance, financial reporting and disclosure, or accounting procedures.

(b) *Independence.* Every audit committee member must be free from any relationship that, in the opinion of the board, would interfere with the exercise of independent judgment as a committee member.

(c) *Resources.* Farm Credit institutions must permit their audit committees to contract for independent legal counsel and expert advisors. If an institution hires a financial expert advisor

pursuant to § 611.210(a)(2), that advisor will also serve as an advisor to the audit committee. Each institution is responsible for providing monetary and nonmonetary resources to enable its audit committee to contract for external auditors, outside advisors, and ordinary administrative expenses. A two-thirds majority vote of the full board of directors is required to deny an audit committee's request for resources.

(d) *Duties*. Each audit committee must report only to the board of directors. In its capacity as a committee of the board, the audit committee is responsible for the following:

(1) *Financial reports*. Each audit committee must oversee management's preparation of the report to shareholders; review the impact of any significant accounting and auditing developments; review accounting policy changes relating to preparation of financial statements; and review annual and quarterly reports prior to release. After the audit committee reviews a financial policy, procedure, or report, it must record in its minutes its agreement or disagreement with the item(s) under review.

(2) *External auditors*. The external auditor must report directly to the audit committee. Each audit committee must:

(i) Determine the appointment, compensation, and retention of external auditors issuing audit reports of the institution;

(ii) Review the external auditor's work;

(iii) Give prior approval for any nonaudit services performed by the external auditor, except the audit committee may not approve those nonaudit services specifically prohibited by FCA regulation; and

(iv) Comply with the auditor independence provisions of part 621 of this chapter.

(3) *Internal controls*. Each audit committee must oversee the institution's system of internal controls relating to preparation of financial reports, including controls relating to the institution's compliance with applicable laws and regulations. Any internal audit functions of the institution must also be subject to audit committee review and supervision.

[53 FR 50339, Dec. 15, 1988, as amended at 71 FR 76120, Dec. 20, 2006]

§ 620.31 Compensation committees.

Each Farm Credit bank and association must establish and maintain a compensation committee by adopting a written charter describing the committee's composition, authorities, and responsibilities in accordance with this section. The compensation committee must report only to the board of directors. All compensation committees are required to maintain records of meetings, including attendance, for at least 3 fiscal years.

(a) *Composition*. Each compensation committee must consist of at least three members and all committee members must be members of the institution's board of directors. Every member must be free from any relationship that, in the opinion of the board, would interfere with the exercise of independent judgment as a committee member.

(b) *Responsibilities*. It is the responsibility of each compensation committee to review the compensation policies and plans for senior officers and employees and to approve the overall compensation program for senior officers. In fulfilling its responsibilities, the compensation committee must document that it determined the:

(1) Institution's projected long-term compensation and retirement benefit obligations are appropriate to the services performed and not excessive;

(2) Incentive-based compensation programs and payments are reasonable and proportionate to the services performed and structured so the payout schedule considers the potential for future losses or undue risks to the institution;

(3) Senior officer compensation, incentive, and benefit programs support the institution's long-term business strategy and mission, as well as promote safe and sound business practices; and

(4) Compensation programs designed for specific groups of employees, other than senior officers, pose no imprudent risks to the institution.

(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

Subpart A—Purpose and Definitions

Sec.
621.1 Purpose and applicability.
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Subpart B—General Rules

621.3 Application of generally accepted accounting principles.
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621.5 Accounting for the allowance for loan losses and chargeoffs.

Subpart C—Loan Performance and Valuation Assessment

621.6 Categorizing high-risk loans and other property owned.
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621.9 Reinstatement to accrual status.
621.10 Monitoring of performance categories and other property owned.

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

621.12 Reports of condition and performance.
621.13 Content and standards—general rules.
621.14 Certification of correctness.
621.15 Reports of accounts and exposures.

Subpart E—Auditor Independence

621.30 General.
621.31 Non-audit services.
621.32 Conflicts of interest and rotation.

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.