

Glen R. Smith, Chairman / Chief Executive Officer
Jeffery S. Hall, Board Member



**MINUTES OF THE REGULAR MEETING
OF THE
FARM CREDIT ADMINISTRATION BOARD
July 11, 2019**

These minutes reflect the business transacted at the July 11, 2019, Regular Meeting of the Farm Credit Administration Board (FCA Board) pursuant to the Government in the Sunshine Act, 5 U.S.C. § 552b, and the regulations of the Farm Credit Administration (FCA) adopted thereunder.

The FCA Board meeting was held at the FCA office in McLean, Virginia, beginning at 9:00 a.m. and concluding at 9:29 a.m. Members of the Board present were:

Jeffery S. Hall, Presiding Board Member
Glen R. Smith, Member

Others present included **Charles Rawls**, General Counsel; **Dale Aultman**, Secretary to the Board; staff of the FCA; and two members of the general public. (A list of staff attendees is attached as Exhibit A.)

Mr. Hall noted that accordance with FCA Board Policy Statement #64, he would be Presiding Board Member for the meeting.

The **Secretary** read a statement that announced the meeting would be conducted according to the requirements of the Government in the Sunshine Act.

Mr. Hall reviewed the published Agenda. (A copy of the Public Announcement publishing the Agenda for the meeting is attached as Exhibit B.)

Mr. Smith moved to adopt the Agenda as published.

Mr. Hall seconded the motion.

There being no further discussion, **Mr. Hall** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

Mr. Smith noted that the Agenda *did not* include any portions of the meeting that should be closed to the public as permitted by the Government in the Sunshine Act and therefore moved that the entire meeting remain open.

Mr. Hall seconded the motion.

There being no further discussion, **Mr. Hall** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

OPEN SESSION

Approval of Minutes

Minutes for June 13, 2019 Regular Board Meeting (BM-11-JUL-19-01)

Mr. Smith moved to approve the minutes for the June 13, 2019, FCA Regular Board Meeting.

Mr. Hall seconded the motion.

There being no further discussion, **Mr. Hall** called the question.

The **Secretary** polled the Board Members and the motion carried unanimously. **(BM-11-JUL-19-01)**

(A copy of the official "Board Action Item" is attached as Exhibit C.)

Report

Briefing on Model Risk Management

Jeremy D'Antoni of the **Office of Chief Operating Officer** and **Joy Strickland** of the **Office of General Counsel** presented the Briefing on Model Risk Management.

Mr. Hall asked if there were any questions or further discussion from the Board.

There were no further questions or discussion.

(A copy of Power Point is attached as Exhibit D.)

ADJOURNMENT

There being no further business to come before the Board, **Mr. Hall** indicated he would entertain a motion to adjourn the meeting.

Mr. Smith moved that the meeting be adjourned.

Mr. Hall seconded the motion.

Mr. Hall called the question.

The **Secretary** polled the Board Members and the motion carried unanimously.

The meeting adjourned at 9:29 a.m.

**STAFF PRESENT AT THE
FCA REGULAR BOARD MEETING
July 11, 2019**

Jeffery S. Hall, Presiding Board Member
Glen R. Smith, Board Member

OFFICE	OPEN SESSION
Office of the Board	
Aultman, Dale	X
Kramp, Kevin	X
Morris, James	X
Roque-Brehm, Awilda	X
Calhoun, Gaye	X
COO	
Hoffman, William	X
D'Antoni, Jeremy	
OIT	
Surface, Ruth	X
OCPA	
Stokke, Michael	X
OGC	
Rawls, Charles	X
Donner, Mary Alice	X
Strickland, Joy	X
OE	
Coleman, Robert	X
Paulsen, Roger	X
OIG	
Laguarda, Wendy	X
Rapp, Tammy	X
Leshko, Sean (Intern)	X
Miller, Kevin	X
OSMO	
Rea, Laurie	X
Connor, Joe	X
ORP	
Mardock, Barry	X
Iannetta, Sal	X
EEOI	
Burlew, Thais	X
OCFO	
Smith, Stephen	X
Gandy, Doug	X
Cabrera, Victoria	X
OAS	
Clark, Patrina	X
GENERAL PUBLIC	2

Farm Credit Administration

1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000



**PUBLIC ANNOUNCEMENT OF
MEETING SUBJECT TO THE GOVERNMENT IN THE SUNSHINE ACT**

**Farm Credit Administration Board
Regular Meeting
July 11, 2019**

Summary: Notice is hereby given, pursuant to the Government in the Sunshine Act (5 U.S.C. Sec. 552b(e) (1)), of the forthcoming regular meeting of the Farm Credit Administration Board.

Date and Time: The regular meeting of the Board will be held July 11, 2019. The meeting is scheduled to be held at the office of the Farm Credit Administration in McLean, Virginia, from 9:00 a.m. until such time as the Board may conclude its business.

Address: Farm Credit Administration, 1501 Farm Credit Drive, McLean, Virginia 22102-5090. Submit attendance requests via e-mail to VisitorRequest@FCA.gov. See SUPPLEMENTARY INFORMATION for further information about attendance requests.

For Further Information Contact: Dale Aultman, Secretary to the Farm Credit Administration Board (703) 883-4009. TTY is (703) 883-4056.

Supplementary Information: This meeting of the Board will be open to the public (limited space available). Please send an e-mail to VisitorRequest@FCA.gov at least 24 hours before the meeting. In your e-mail include: name, postal address, entity you are representing (if applicable), and telephone number. You will receive an e-mail confirmation from us. Please be prepared to show a photo identification when you arrive. If you need assistance for accessibility reasons, or if you have any questions, contact Dale Aultman, Secretary to the Farm Credit Administration Board, at (703) 883-4009. The matters to be considered at the meeting are:

OPEN SESSION

Approval of Minutes

1 June 13, 2019

Reports

2 Briefing on Model Risk Management

July 1, 2019

Date

/s/

Dale Aultman
Secretary to the Board

Farm Credit Administration

1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4000

BOARD ACTION ITEM



FCA BOARD ACTION ON

Minutes for June 13, 2019

BM-11-JUL-19-01

Effective Date: July 11, 2019

Effect on Previous Action: None

THE FCA BOARD HEREBY:

Approves the minutes for June 13, 2019, regular Board Meeting.

DATED THIS 11th DAY OF JULY 2019

BY ORDER OF THE BOARD

_____/s/
Dale L. Aultman
Secretary to the Board



Model Risk Management Guidance

Joy Strickland and Jeremy D'Antoni



Existing Guidance

- **June 17, 2002**—FCA Informational Memorandum titled “Computer-Based Model Validation Expectations”.
- **April 4, 2011**—Fed/OCC issued Supervisory Guidance on Model Risk Management.
- **June 7, 2017**—FDIC adopted Supervisory Guidance on Model Risk Management previously issued by Fed/OCC with technical conforming changes.



Model Risk Management (MRM)

- FCA staff is considering:
 - Baseline MRM principles that all System institutions should apply as part of the safe and sound use of models in decision making.
 - More detailed guidance for certain System institutions depending upon the complexity and materiality of their model usage.
- The baseline principles would be substantially like portions of the Fed/OCC/FDIC guidance, while the more detailed guidance would be substantially identical to the entirety of the Fed/OCC/FDIC guidance.



Baseline Principles

- FCA would use these baseline principles in its examination of all System institutions' models.
- The baseline principles would include the following topical areas for institutions:
 - Defining model risk and what is considered a model
 - The linkage between the importance and complexity of a model and effective MRM
 - Model inventory
 - Development and testing
 - Change controls
 - Validation
 - Governance
 - Audit



Models and Model Risk

- The term **model** refers to a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, rules-based methodologies, and assumptions to process input data into quantitative estimates.
 - A model consists of three parts: an information input, a processing component, and a reporting component.
- The use of models presents **model risk**, which is the potential for adverse consequences from decisions based on inaccurate or misused model outputs and reports. Model risk can result in financial loss, poor business and strategic decision-making, or damage to an institution's reputation.



Effective Challenge

- The concept of “effective challenge” is a guiding principle for managing model risk and is essential to effective MRM. Effective challenge is “critical analysis by objective, informed parties who can identify model limitations and assumptions and produce appropriate changes.”
- Effective challenge depends on a combination of:
 - Incentives
 - Competence
 - Influence



Model Usage

- Institutions use models for a broad range of activities, including but not limited to:
 - Underwriting credits
 - Valuing exposures, instruments, and positions
 - Measuring risk exposure
 - Developing financial plans
 - Determining capital and allowance for loss adequacy



Detailed Guidance

- The more detailed guidance would not need to be applied in its entirety to all System institutions and models. In general, the detailed guidance should be used as follows:
 - District banks should apply these higher standards for their internal models, for any models shared with other System institutions, and for any models on which other institutions rely upon the results.
 - Associations should apply these higher standards to any models that are complex or material or that pose risk to the institution, and to any models they share with other System institutions.
 - Service corporations that serve multiple institutions should apply the higher standards to the models they maintain for the System institutions they serve.
 - Any institution should apply the higher standards if its model use is significant, complex, or poses material risk to the institution.



Questions

