

Fact Sheet

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Fact Sheet on Corporate Governance and Standards of Conduct for Farmer Mac: Proposed Rulemaking

The Farm Credit Administration Board adopted a proposed rule on Feb. 12 to revise its regulations on Federal Agricultural Mortgage Corporation (Farmer Mac) corporate governance and standards of conduct. FCA first issued regulations in this area in 1994. The proposed rule's comment period will end 90 days after publication in the Federal Register. The proposed rule has the following objectives:

- Clarify the roles of the Farmer Mac board and voting stockholders in the director nomination and election process.
- Clarify the interaction of director representational affiliations with fiduciary duties to Farmer Mac.
- Enhance the usefulness, transparency and consistency of conflict-of-interest reporting.
- Enhance risk governance at Farmer Mac to further its long-term safety and soundness and mission achievement.
- Remove repetitious disclosure and reporting requirements.

Below is a summary of the proposed changes on which FCA seeks comment.

Summary of Key Proposed Changes

FCA oversight authority (part 650): The proposed rule would outline FCA's broad authorities as Farmer Mac's primary regulator, and it would clarify that FCA has full access to Farmer Mac records and personnel.

Standards of conduct (part 651, subpart B): The rule would require Farmer Mac to maintain a written code of conduct that uses ethical benchmarks for the professional behavior of Farmer Mac directors, officers, employees, and agents. The rule would update the existing conflict-of-interest policy requirements to clarify that an elected director's statutorily required

representational affiliation is not a de facto conflict of interest. The rule would also require the following:

- The use of a “reasonable person” standard when disclosing conflicts.
- Conflict-of-interest reporting to be based on (1) the opinion of the person filing the report, (2) conflicts specifically identified in Farmer Mac’s policies, and (3) conflicts identified in FCA regulations.
- A review of conflicts-of-interest reports by Farmer Mac within 10 days and, when a material conflict is identified, time for the filer to respond.
- Recusal of affected parties when conflicts are identified.
- Notice to FCA by Farmer Mac of unresolved material conflicts.

Director elections, removal and independence (part 651, subpart C): The rule would require Farmer Mac to have election policies and procedures in place and to implement those policies and procedures in a fair and impartial manner. It would require all directors to carry out their duties in the best interest of Farmer Mac, with impartiality and without discriminating in favor of or against any investor, stockholder, or group of stockholders. The rule would also protect the ability of directors to be accountable to the shareholders who elected them by specifically allowing directors to comment on nonprivate and nonprivileged corporate business, provided that doing so would not violate any laws or regulations. The rule would not exempt directors from securities laws and regulations regarding prohibited corporate disclosures.

Farmer Mac board committees (part 651, subpart C): The rule proposes to require that the Farmer Mac board maintain at least the following four board-level committees: risk, audit, compensation, and corporate governance. The rule would also require the committees be formed through a written charter specifying the powers, responsibilities and structure of each committee, and it would require each committee to have both elected and appointed directors. Further, among the elected directors serving on each committee, there must be directors with affiliations to both Class A and Class B stockholders.

Farmer Mac risk management (part 653): The rule proposes new risk management provisions, including board approval of Farmer Mac’s overall risk appetite and tolerance. Another provision would require Farmer Mac to have a staff-level, full-time risk officer who reports directly to the risk committee and the CEO.

Reporting and disclosures (Part 655): The rule would enhance existing disclosure and reporting requirements by removing repetitious reporting and allowing Farmer Mac to file reports electronically with FCA’s Office of Secondary Market Oversight.

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