

Farm Credit Administration

§ 630.6

(3) A board member formally designated by action of the board to certify reports of condition and performance 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.

(d) *Management assessment of internal control over financial reporting.* (1) Annual reports must include a report by the Funding Corporation's management assessing the effectiveness of the internal control over financial reporting for the System-wide report to investors. The assessment must be conducted during the reporting period and be reported to the Funding Corporation's board of directors. Quarterly and annual reports must disclose any material change(s) in the internal control over financial reporting occurring during the reporting period.

(2) The Funding Corporation must require its external auditor to review, attest, and report on management's assessment of internal control over financial reporting. The resulting attestation report must accompany management's assessment and be included in the annual report.

[71 FR 76121, Dec. 20, 2006]

EFFECTIVE DATE NOTE: At 72 FR 64130, Nov. 15, 2007, §630.5 was amended by revising (d)(2), effective either 30 days after publication in the FEDERAL REGISTER or later if Congress takes certain adjournments.. For the convenience of the user, the added and revised text is set forth as follows:

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

* * * * *

(d) *Management assessment of internal control over financial reporting.*

* * * * *

(2) The Funding Corporation must require its external auditor to issue an attestation report, which must express an opinion on the effectiveness of internal control over financial reporting. The resulting attestation report must accompany management's assessment and be included in the annual report.

§ 630.6 Funding Corporation committees.

(a) *System Audit Committee.* The Funding Corporation must establish and maintain a System Audit Committee (SAC) by adopting a written charter describing the committee's composition, authorities, and responsibilities in accordance with this section. The SAC must maintain records of meetings, including attendance, for at least 3 fiscal years.

(1) *Composition.* All SAC members should be knowledgeable in at least one of the following: Public and corporate finance, financial reporting and disclosure, or accounting procedures.

(i) At least one-third of the SAC members must be representatives from the Farm Credit System.

(ii) The SAC may not consist of less than three members and at least one member must be a financial expert. A financial expert is one who either has experience with internal controls and procedures for financial reporting or experience in preparing or auditing financial statements.

(iii) The chair of the SAC must be a financial expert.

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

(3) *Resources.* The Funding Corporation must permit the SAC to contract for independent legal counsel and expert advisors. The Funding Corporation is responsible for providing monetary

§ 630.20

12 CFR Ch. VI (1–1–08 Edition)

and nonmonetary resources to enable the SAC to contract for external auditors, outside advisors, and ordinary administrative expenses. A two-thirds majority vote of the full Funding Corporation board of directors is required to deny any SAC request for resources.

(4) *Duties.* The SAC reports only to the Funding Corporation board of directors. In its capacity as a committee of the board, the SAC is responsible for the following:

(i) *Financial reports.* The SAC must oversee the Funding Corporation's preparation of the report to stockholders and investors; review the impact of any significant accounting and auditing developments; review accounting policy changes relating to preparation of the System-wide combined financial statements; and review annual and quarterly reports prior to release. After the SAC reviews a financial policy, procedure, or report, it must record in its minutes its agreement or disagreement with the item(s) under review.

(ii) *External auditors.* The external auditor must report directly to the SAC. The SAC must:

(A) Determine the appointment, compensation, and retention of external auditors issuing System-wide audit reports;

(B) Review the external auditor's work;

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

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

(iii) *Internal controls.* The SAC must oversee the Funding Corporation's system of internal controls relating to preparation of financial reports, including controls relating to the Farm Credit System's compliance with applicable laws and regulations.

(b) *Compensation committee.* The Funding Corporation 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 com-

pensation committee will be required to maintain records of meetings, including attendance, for at least 3 fiscal years.

(1) *Composition.* The committee must consist of at least three members. Each committee member must be a member of the Funding Corporation'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.

(2) *Duties.* The compensation committee must report only to the board of directors. In its capacity as a committee of the board, the compensation committee is responsible for reviewing the compensation policies and plans for senior officers and employees. The compensation committee must approve the overall compensation program for senior officers.

(3) *Resources.* The Funding Corporation must provide monetary and non-monetary resources to enable its compensation committee to function.

[71 FR 5767, Feb. 2, 2006, as amended at 71 FR 76122, Dec. 20, 2006]

Subpart B—Annual Report to Investors

§ 630.20 Contents of the annual report to investors.

The annual report must contain the following:

(a) *Description of business.* (1) The description shall include a brief discussion of the following:

(i) The System's overall organizational structure, its lending institutions by type and their respective authorities, the relationships between different types of institutions, and the overall geographic area and eligible borrowers served by those institutions;

(ii) The types of lending activities engaged in and financial services offered by System institutions;

(iii) Any significant developments within the last 5 years that have had or could have a material impact on the System's organizational structure and the manner in which System institutions conduct business, including, but not limited to, statutory or regulatory changes, mergers or liquidations of System institutions, terminations of