Fact Sheet

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Fact Sheet on Senior Officer Compensation Disclosures and Related Topics Final Rule

The Farm Credit Administration (FCA) adopted a final rule today to revise its regulations governing disclosures of senior officer compensation, supplemental retirement plans, and compensation committee responsibilities. The rule also contains new requirements to report significant events to shareholders and to hold nonbinding, advisory votes on senior officer compensation.

Economic and business environments are changing, and there have been recent developments in best practices related to compensation. As a result, FCA is updating and strengthening its regulations to reflect current practices in the Farm Credit System (System) and to maintain the high standards expected of a government-sponsored enterprise composed of cooperative institutions.

The rule seeks to improve the transparency, completeness and timeliness of disclosures to shareholders; encourage member participation in the control and management of their institution; and continue to ensure the exercise of good stewardship by compensation committees.

Summary of Rule Provisions

New §§ 611.360 and 611.410 Advisory voting: The rule requires a nonbinding, advisory vote by voting shareholders of System banks and associations on CEO or other senior officer compensation if compensation increases by 15 percent or more from the previous reporting period or, at associations only, if 5 percent of the voting shareholders petition for the vote. The advisory vote provides shareholders a means to clearly express and easily communicate either their approval or disapproval of CEO or senior officer compensation practices to their institution's board.

§ 620.5(e)(4) Description of liabilities: The rule requires banks and associations to disclose in their annual reports information about supplemental retirement plans for all employees. The disclosure enhances the transparency and completeness of an institution's obligations and commitments.

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§ 620.6(c)(4) Retirement compensation of senior officers: The rule requires disclosure in a table of pension benefit and supplemental executive retirement plans for senior officers. Disclosures include the name of the plan, years of credited service for the CEO and average years of credited service for the other senior officers, present value of accumulated benefits, and payments made during the fiscal year. The enhanced disclosure provides clarity and transparency on the complete compensation packages for senior officers.

§ 620.6(c)(5) Relationship of compensation of senior officers to institution operations: The rule requires disclosure of the overall risk and reward structure for senior officer compensation plans and practices, the relationship of senior officer compensation to the institution's overall performance, and the relationship of the compensation to the senior officers' performance.

New § 620.15 Notice of significant or material events: The rule requires timely and transparent communication to shareholders and investors of significant or material events that occur at System institutions between annual reporting periods. Boards of directors must develop policies to identify events to be communicated. Notice must be made within 90 days of the event's occurrence. The events may be communicated in either a separate notice to shareholders or as part of the quarterly report to shareholders.

§§ 620.31(b) and 630.6(b)(2) Compensation committee responsibilities: The rule clarifies and enhances the responsibilities of compensation committees to ensure that each committee documents that it determined the following:

- Long-term compensation and retirement benefit obligations are appropriate and not excessive.
- Incentive-based compensation programs and payments consider the potential for future losses or undue risks to the institution.
- Compensation programs support the institution's long-term business strategy and the System's mission.
- Compensation programs for groups of employees other than senior officers pose no imprudent risk to the institution.

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