

Statement
Leland Strom, Board Member
Farm Credit Administration Board Meeting
March 13, 2014

The final regulation we approved in September 2012—Compensation, Retirement Programs, and Related Benefits—encourages member-borrowers of Farm Credit System institutions to participate in the management, control, and ownership of their institutions. We developed the rule after some unusual compensation payments were made in the Farm Credit System.

We responded initially by creating two pieces of guidance—an Informational Memorandum on Executive Compensation and Benefits Programs and a Bookletter regarding Compensation Committees. Later we developed the compensation rule.

In the 2014 Farm Bill, Congress affirmed the benefits of disclosure and transparency to the member-borrowers of Farm Credit System institutions. I fully support Congress' findings, and I agree that a primary responsibility of the boards of directors of System institutions is to oversee compensation practices.

In making compensation decisions, institution boards of directors should carefully consider all of the issues, such as performance and retention, appropriate compensation, benefits packages, and concerns of their cooperative membership. In addition, boards should fully quantify and understand both the near-term and long-term expenses and financial consequences associated with the executive compensation programs they approve. As Government-sponsored enterprises, institutions should also pay particular attention to any potential reputation risks their compensation programs might create.

My hope going forward is that each board of directors will remain vigilant in evaluating its compensation program. An effective compensation program strikes a balance between the goal of attracting and retaining talented senior leadership and the long-term costs of the compensation provided. Failing to strike this balance can adversely affect an institution's ability to provide cost-effective credit to its member-borrowers and its ability to fulfill its mission. Further, it is my hope that FCA, through examinations and policy development, will continue to review and enforce our regulations on compensation practices and disclosure.

As a network of farmer-owned cooperatives, the System holds a unique and distinguished position in agricultural financing and plays an increasingly significant role in lending to agriculture and rural America. It is essential that the System remain safe, sound, and financially strong so it can be there for America's next generation of farmers, ranchers, cooperatives, and rural communities. To ensure this outcome, System institutions must remain accountable to their respective shareholders, maintain strong governance practices, and demonstrate financial prudence in their decisions, including those on executive compensation.