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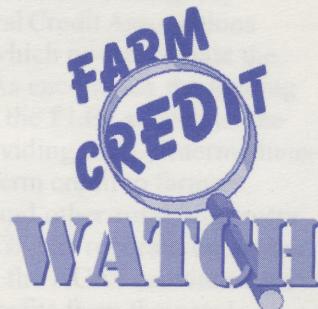
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Improving FCS Financial Disclosures

(August 2002)

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The Treasury Department has weighed in powerfully on government-sponsored enterprises (GSEs) disclosure issues. Peter Fisher, Treasury's undersecretary for Domestic Finance, testified on July 16 to a subcommittee of the House Financial Services Committee about GSE disclosures. While he focused primarily on Fannie Mae and Freddie Mac, he included all GSEs in his recommendations, explicitly mentioning the Farm Credit System (FCS).

Specifically, he recommended that *all* GSEs register with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934. Registration would require GSEs to comply with SEC rules regarding the scope of quarterly and annual financial disclosures as well as timely disclosure of important financial events. As Fisher noted, "continued operation [of the GSEs] outside of the SEC-administered corporate disclosure regime is

inconsistent with our objective for investor protection and for a sound and resilient financial system." It now falls to the Farm Credit Administration (FCA) to mandate SEC disclosure for the FCS.

Fisher did not address the question of whether the FCS as a whole should register with the SEC or if individual FCS banks and associations should register. However, when asked about the Federal Home Loan Banks (FHLBs), the other GSE owned by member-borrowers, he strongly implied that each of the 12 FHLBs should register with the SEC because the average FHLB has 650 members. Larger FCS associations, of course, have far more member-borrowers. Further, FCS members belong to individual FCS associations. Therefore, in order to encourage investor discipline within the FCS, the FCA should require individual associations with at least 500 members to register with the SEC under the 1934 Act. That requirement would snare most FCS associations and eventually all of them as the FCS continues to consolidate. Given their size, the seven FCS banks (soon to be five) also should register with the SEC.

The FCA should go beyond requiring SEC registration for the larger associations to require that all FCS associations post, in an easy-to-download .pdf format, their quarterly and annual reports to members on a website along with their Association Annual Meeting Information Statement (AAMIS). The AAMIS is comparable to a proxy statement for a publicly owned corporation. In addition, all SEC filings should be posted on association and FCS bank websites on the day they are issued. Watch for your next issue of the *Journal* for more information.

FCA To Create Ombudsman Position

On Aug. 6, the FCA announced that it would study creating an ombudsman position within the FCA. According to FCA Chairman Mike Reyna, "public inquiries and complaints currently arrive at various locations throughout the agency. I believe we can enhance our effec-

tiveness by establishing a single point of contact for concerns and requests." *FCW* strongly endorses the ombudsman concept as bankers have repeatedly noted the difficulty of registering complaints about FCS lending abuses, which seem to be increasing. It will not be enough, though, to have an ombudsman to receive complaints — the ombudsman must have the authority to ensure that someone within the FCA acts in an aggressive and timely manner to resolve these complaints. *FCW* therefore recommends that the FCA's ombudsman study also consider how complaints will be resolved and how complaint resolution will be publicized on the FCA website.

The PCA — An Endangered Species?

Congress created Production Credit Associations (PCAs) in 1933 to provide short- and medium-term credit to farmers and ranchers to complement long-term real estate credit provided by Federal Land Bank Associations, acting on behalf of the Federal Land Banks (FLBs). Congress wisely declined to extend the tax-free nature of the FLBs to

the new PCAs. PCAs are being driven to extinction, though, by Agricultural Credit Associations (ACAs), which now dominate the FCS. ACAs encompass the lending powers of the FLBs as well as the PCAs, providing short-, intermediate- and long-term credit to farmers, ranchers, and other rural borrowers.

As *FCW* has reported on several occasions, the ACAs convinced the IRS that profits from their real-estate lending should be tax-free. The ACAs quickly demonstrated their ability to maximize their non-taxable income, which has destroyed the ability of PCAs to remain independent. There was a time when PCA managers were proud to pay their fair share of taxes — they were understandably sensitive to being called "socialistic." That time has passed.

The only question now: When will the last PCA expire? *FCW* is holding a contest, open to all, to guess when the last PCA will disappear. E-mail your guess to green-acres@ely-co.com. The winner will receive a copy of Karl Marx's best-seller, *Das Kapital*.