



## Compensation Committee Charter Policy

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### *Regulatory Guidance*

620.31; 630.6(a); BL-060; IM 2/23/09

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### *Policy Details*

#### **Purpose:**

The Compensation Committee established by this charter is a committee of the Board of Directors of Texas Farm Credit Services ("Association") which shall report only to the Board of Directors. The primary function of the Compensation Committee is to assist the Board in fulfilling its responsibilities with respect to matters involving the compensation of the Board and the Chief Executive Officer, to review the compensation policies and plans for senior officers and employees, and to approve the overall compensation program for senior officers.

#### **Objective:**

The Committee shall at all times carry out the compensation philosophy of Texas Farm Credit and shall do its best to adhere to that philosophy.

#### **Operating Parameters:**

##### 1. Authority & Delegation

The Compensation Committee will fulfill its responsibilities by carrying out the activities and processes enumerated in the following sections of this charter. In doing so, the Committee has full access to all books, records, facilities, and personnel of the

Association, and the power to hire, retain and terminate external advisers and/or outside counsel or other experts considered necessary in discharging its oversight role, including sole authority to approve the fees and retention terms for such outside advisors. The Committee will have direct access to any advisers that management uses on compensation programs or practices. The Committee shall have easy and ready access to institution resources and personnel, particularly senior officers and managers with human resources responsibilities, to obtain needed information and gain the best overall understanding of the compensation program.

## 2. Composition

The Compensation Committee shall be comprised of at least three members, each of whom shall be a member of the Board of Directors who is free from any relationship that would interfere with the exercise of his or her independent judgment as a committee member as determined by the Board of Directors. The Compensation Committee may consist of each member of the Board, provided that each member of the Committee satisfies the independence requirement.

A Board member shall be selected to serve as Chairman. The Chairman may request training from outside advisors or members of management in addition to the training the Committee receives through attendance at System-sponsored events. The Chairman shall serve as the Committee spokesperson with the Board and senior management.

The term of office for each position on the Committee shall be for one year. The chairman and members of the Committee shall be selected by the Board of Directors upon recommendation by the Governance Committee at the annual organizational meeting of the Board and shall serve until their successors shall be duly elected and qualified. The Board, upon recommendation of the Committee or otherwise, may remove any Committee member at any time.

## 3. Meetings

The Committee shall meet at least one time annually, or more frequently as circumstances dictate. Meetings may be called by the Chairman of the Committee or by the Chairman of the Board. A majority of the members of the Committee shall constitute a quorum. The Committee shall have the authority to delegate any of its responsibilities to other Board committees or subcommittees as the Committee deems appropriate. The Committee may meet with, and receive reports from management. The Committee, at its discretion, may hold executive sessions without management to discuss any matters that the Committee believes should be discussed privately.

When meeting as the Compensation Committee, a meeting separate from the Board

meeting will be held so the business of the Board and the business of the Compensation Committee are not mixed. Meeting agendas will be prepared and provided in advance to Committee members, along with appropriate briefing materials. Minutes of all Committee meetings will be prepared, approved by the Committee, and provided to the Board. The Committee Chairman may meet with the Chairman of the Board prior to any meetings to ensure the Board is adequately prepared for discussions.

#### 4. Responsibilities and Duties

As a committee of the Board, the Compensation Committee shall report only to the Board. To fulfill its responsibilities and duties, the Compensation Committee shall, with such assistance from management and/or any outside advisors as the Committee deems appropriate, perform the following:

- A. While the Compensation Committee has the powers set forth in this charter, it is not the duty of the Compensation Committee to approve the compensation of individual senior officers or employees. This is the responsibility of management
- B. Review the adequacy of this charter on an annual basis and recommend any proposed changes to the Board for approval
- C. Establish the overall compensation structure and executive compensation philosophy and principles of the Association. Determine the Institution's projected long-term compensation and retirement benefit obligations are appropriate to the services performed and not excessive
- D. Review the compensation discussion and analysis disclosures in the annual report prior to annual report issuance
- E. Annually, review and approve the corporate goals and objectives of the CEO, evaluate performance and the base salary and incentive and other compensation of the CEO and make recommendations to the Board
- F. Annually, review the compensation policies and plans, including incentive plans (and benefit plans), for senior officers and employees
- G. Determine the compensation programs designed for specific groups of employees, other than senior officers, pose no imprudent risks to the institution
- H. Determine the Incentive-based compensation programs and payments are reasonable and proportionate to the services performed and structured so the

payout schedule considers the potential for future losses or undue risks to the institution

- I. Annually, approve the overall compensation program for senior officers. Determine the senior officer compensation, incentive, and benefit programs support the institution's long-term business strategy and mission, as well as promote safe and sound business practices
- J. Review any annual communication from the Farm Credit Administration regarding compensation for Farm Credit System directors and make recommendations to the Board on director compensation
- K. Consider, on a case-by-case basis, exceptional circumstances for which additional compensation would be paid for the contribution of the Board member's extraordinary time and effort in the service of the Association and its stockholders. Such circumstances could include the following: (1) merger of consolidation; (2) joint management, (3) financial difficulties that threaten the Association's viability, (4) Committee or other assignments; and (5) other extraordinary circumstances specifically approved by the Board. If the Committee determines that additional compensation is warranted, it will recommend the Board adopt a resolution that describes the exceptional circumstances involved, authorizes the additional compensation, and establishes the approximate time frame for the additional compensation
- L. Perform an annual self-evaluation of the Committee's effectiveness in performing its responsibilities, the results of which shall be reported to the Board of Directors
- M. Hold Committee Executive Sessions without management present if necessary
- N. Notify the FCA of any material changes in compensation programs and ensure timely disclosure of these changes to stockholders
- O. Make the charter available to the public on the Association's website
- P. Maintain records of Committee meetings, including attendances, for at least 3 fiscal years
- Q. Make regular reports to the Board of Directors regarding its activities
- R. Perform any other activities consistent with this charter, the Association's by-laws, and governing law, as the Committee or the Board deems necessary or appropriate

### **Process for Addressing Exceptions:**

It is the Chairman's responsibility to determine if any exceptions are to be considered. In the event the Chairman deems an exception necessary, a full report must be made to the full Board and the Board must approve the exception with assistance from senior management or outside advisors, if necessary.

### **Reporting Requirements:**

The Compensation Committee is required to remain accountable and report only, to the Board. The Committee Chairman will report on the activities of the Committee to the full Board.

Minutes of the Committee activities will be documented and maintained for each meeting of the Committee. These minutes shall be reported to the Board. Copies of the Compensation Committee meeting minutes, including attendance will be retained for a minimum of three years.

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## ***ID Information***

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Compensation Committee Charter

### **Document Number:**

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### **Department:**

Governance, Legal

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