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<b>Charter:</b>	Audit-Risk Committee
<b>Board Approval:</b>	August 2018
<b>Authority:</b>	12 CFR §§ 620.30, 621.30 – 621.32, 620.5(i)(2), & 612.2260; FCA WP 31.3-1 (Audit Committee)(02/16/16); FCA EM-31.3 (Audit & Review Programs)(04/20/16); FCA EM-31.7 (Information Technology & Security)(04/18/17); FCA EM (Essential Practice for Information Technology – IT Audit)(10/17)

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## **PURPOSE**

The Audit-Risk Committee (Committee) established by this charter is a committee of the Board of Directors (Board) of Farm Credit of Southern Colorado, ACA (Association). The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over reporting, audits and reviews and the retention of agents relating to same, and the Association’s process for monitoring compliance as set forth below.

## **COMPOSITION AND TERM**

The Committee will consist of at least three members, each of whom shall be a member of the Board, shall be free from any relationship that would interfere with the exercise of his/her independent judgment as a Committee member as determined by the Board as set forth herein, shall be financially literate, *and* shall be knowledgeable in at least one of the following areas: (1) public and corporate finance; (2) financial reporting and disclosure; or (3) accounting procedures. The Committee will include all persons who are designated by the Board to be financial experts under 12 CFR § 611.210(a)(2), and at least one member shall have expertise in financial reporting. The Board shall confirm with the Standards of Conduct Official that each Committee member has no known or potential conflicts of interest with senior officers that could interfere with the Committee member’s exercise of independent judgment. Further, at least annually the minutes shall include documentation evidencing each member’s knowledge, independence, and experience for existing members or at the time of the first meeting following the appointment of new members.

The term of office for each position on the Committee shall be for the lesser of one year or until the next organizational meeting of the Board. At the appropriate annual organizational meeting of the Board, the Board shall appoint the members of the Committee and shall also designate one of the members as Chairman of the Committee. The Chairman of the Committee shall be the

principal contact between the Committee and the Board of Directors and between the Committee and senior management. In that capacity, the Chairman of the Committee has the discretion to brief the Chairman of the Board and advise him/her of any key decisions in advance so that the Board is prepared to deal with the issue(s) when the Committee and the Board meet. The Chairman of the Committee shall serve until his/her successor shall be duly selected and qualified in accordance with Association guidance.

The Board, upon recommendation of the Committee or otherwise, may remove any Committee member at any time. The Committee may elect a Vice-Chairman, if the Committee determines that such position is needed.

## **MEETINGS**

The Committee shall meet at least four times 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 may meet with and receive reports from management and professional advisors and may invite members of management, auditors, and others to attend meetings and provide pertinent information, as necessary; provided, however, the Committee shall ensure that the number of persons who attend Committee meetings shall not be such as to hinder or impair individual Committee members from asking questions or actively participating in Committee meetings. The Committee may also hold executive sessions without management to discuss any matters that the Committee believes should be discussed privately.

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 and approved by the Committee, made available to Committee members and Board members, and maintained for at least seven years. Meeting minutes should provide sufficient detail on reasons for decisions to avoid member disputes on prior decisions. Committee members should have ready access to past minutes for reference or review.

## **RESPONSIBILITIES AND DUTIES**

As a committee of the Board, the Committee shall remain accountable, and report only, to the Board. The Committee may report its activities to the Farm Credit Administration (FCA) upon specific request or as otherwise required by law or Association guidance. In order for Committee members to discharge its responsibilities and duties, it shall maintain an awareness of current audit practices.

By and through this charter, the Board delegates the following responsibilities and duties to the Committee:

### **A. Financial Reports**

1. Oversee management's preparation of report(s) to shareholders.

2. Review the impact of any significant accounting and auditing developments, including any accounting policy changes relating to preparation of financial statements.
3. Review annual and quarterly reports prior to release, including whether they are complete and consistent with the information known to Committee members and reflect appropriate accounting standards.
4. Review significant accounting and reporting issues, including complex or unusual transactions, highly judgmental areas, and recent professional and regulatory pronouncements, and their impact on financial reporting.
5. Review periodic reports from management, any internal audit resource, or any external auditor regarding any significant proposed regulatory, accounting, or reporting changes and issues, including complex or unusual transactions, highly judgmental areas, and recent professional and regulatory pronouncements, and their potential impact on financial reporting.
6. Review non-financial sections of the annual report before release and consider the accuracy and completeness of the information.
7. Prior to the release of annual audited financial statements, review with management and the external auditor the results of the audits, including any difficulties encountered, and review reports regarding: (a) all critical accounting policies and practices used by the Association; (b) all material alternative accounting treatments of financial information within generally accepted accounting principles (GAAP) that have been discussed with management, including the ramifications of the use of alternative treatments and disclosures and the treatment preferred by the independent auditor; and (c) other material written communications between the external auditor and management, such as any management letter and management's response to the letter, schedule of unadjusted differences, reports on observations and recommendations on internal controls, a listing of adjustments and reclassifications not recorded, and the independent auditor's independence letter.
8. Review disclosures made by management and the external auditor regarding: (a) the effect of off-balance sheet arrangements that either have, or are reasonably likely to have, a current or future effect on the financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors; and (b) earnings press releases and other reports or written or electronic material disclosing "pro forma" or "adjusted" non-GAAP information.
9. The Committee's meeting minutes shall reflect the Committee's agreement or disagreement with any financial policy, procedure, or report reviewed by the Committee.

## **B. Internal Controls**

1. Oversee the Association's system of internal controls relating to the preparation of financial reports, including controls relating to the preparation of the Association's quarterly and annual reports and information technology (IT) security and control and including a review of such controls relating to compliance with applicable laws and guidance.
2. Evaluate the adequacy and effectiveness of financial, administrative, operating, and accounting policies through active communications with management, internal audit, and third-party auditors.
3. Evaluate the adequacy of internal accounting controls by review of the written reports from internal audit and third-party auditors and any responses from management to same.
4. Evaluate the adequacy of the Association's identification of vulnerabilities to fraud and confirm adequate processes and controls are in place to reduce susceptibility to fraud.
5. Understand the scope of review performed by internal and external auditors regarding internal controls over financial reporting and credit reviews and review reports on significant findings and recommendations along with any responses from management to same.
6. Review and supervise all internal audit functions related to financial reporting controls.
7. Review and discuss management's internal control report with the internal auditor and external auditor on at least an annual basis.
8. Prior to the release of annual reports to shareholders, review a report on disclosures made by senior management during the certification process regarding any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting that are reasonably likely to adversely affect the Association's ability to record, process, summarize, and report financial information, and any fraud that involves management or other employees who have a significant role in internal controls regardless of materiality.
9. Monitor risk and risk management capabilities within the Association on a periodic basis, including communication about escalating risk, crisis preparedness and recovery plans, and effectiveness of internal controls over identified risks.
10. Review a summary of the background checks completed on employees involved in accounting and financial reporting to the extent permitted by law.

## **C. External (Independent) Audit**

For each external (independent) auditor, the Committee must:

1. Determine the appointment, compensation, and retention of the external auditor issuing audit report(s) for the Association, which auditor must report directly to the Committee and must be qualified and reputable for the scope of the work being performed; any external auditor must satisfy applicable standards of conduct prior to retention as required by FCA regulation and applicable Association and other guidance.
2. Review and confirm the independence of the external auditor prior to retention by obtaining a statement from the auditor(s) on relationships between the auditor and the Association, including non-audit services, and discussing the relationship with the auditor.
3. Receive a written report annually from the external auditor that describes: (a) the external auditing firm's internal quality-control procedures; (b) any material issues raised by the most recent internal quality-control review or peer review of the firm or by any inquiry or investigation by governmental or professional authorities within the preceding five years, respecting one or more independent audits carried out by the firm; and (c) any steps taken to deal with such issues; discuss with each external auditor the contents of the report and the impact of the matters addressed in the report on the quality of services performed by the external auditor.
4. Review and approve the scope, approach, and planning of the annual audit by the external auditor of financial statements and review the work of the external auditor, including the external auditor's interim and final reports.
5. Pre-approve allowable non-audit services to be provided by the external auditor and ensure that an external auditor is not providing prohibited non-audit services under 12 CFR §§ 621.30 – 621.32, including the receipt of a written certification from the external auditor to that effect. *See infra* for a description of such prohibited activities.
6. Review the external auditor's work and, upon the conclusion of an audit, meet with the external auditor outside the presence of management, as appropriate, to: (a) discuss any matters that the Committee or external auditor believes necessary; (b) receive or review the findings of the audit; and (c) confirm there were no restrictions, limitations, or barriers imposed upon the external auditor by management during the audit.
7. Require a written response from management to the findings of the review, which includes identification of corrective actions.
8. Review any material weaknesses in internal accounting control structure identified as a reportable condition by the external auditor and recommend and/or monitor, as deemed necessary, the correction of any such deficiency, and resolve disagreements between management and the external auditor regarding financial reporting.
9. Evaluate annually, after giving due consideration to the need for a single auditor for all System institutions and taking into consideration all relevant circumstances known to the Committee, whether the Association should change its independent auditor or the partner

in charge of performing or reviewing the Association's audit or other audit team personnel.

#### **D. Internal Audit**

Internal audits for the Association may be performed by a third-party retained by the Association (*i.e.*, an internal auditor) to perform internal reviews, including internal audits, credit reviews, collateral reviews, and operational reviews; the internal auditor is distinguishable from a person employed by the Association to perform internal audit functions, such as the Director of Internal Audit. For purposes of this charter, the term audit may also refer to a review performed by an internal auditor. For each internal auditor, the Committee must:

1. Determine the appointment, compensation, and retention of the internal auditor issuing report(s) for the Association, which auditor must report directly to the Committee and must be qualified and reputable for the scope of the work being performed; any internal auditor must satisfy applicable standards of conduct prior to retention as required by FCA regulation and applicable Association and other guidance.
2. Review and confirm the independence of the internal auditor prior to retention by obtaining a statement from the auditor(s) on relationships between the auditor and the Association, including non-audit services, and discussing the relationship with the auditor.
3. In consultation with the internal auditor selected for engagement, determine the scope and timing of the audit and ensure that scope and timing of the audit are adequate and that the internal auditor has full access to the information needed to satisfy the audit being performed.
4. Pre-approve allowable non-audit services to be provided by the internal auditor and ensure that an internal auditor is not providing prohibited non-audit services under 12 CFR §§ 621.30 – 621.32,<sup>1</sup> including the receipt of a written certification from the internal auditor to that effect. *See infra* for a description of such prohibited activities.
5. Review reports and findings resulting from the internal auditor's independent evaluation of the systems of internal controls and continuing operations.
6. Review the internal auditor's work and, upon the conclusion of an audit, meet with the internal auditor outside the presence of management, as appropriate, to: (a) discuss any matters that the Committee or internal auditor believes necessary; (b) receive or review the findings of the audit; and (c) confirm there were no restrictions, limitations, or barriers imposed upon the internal auditor by management during the audit.
7. Require a written response from management to the findings of the review, which includes identification of corrective actions.

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<sup>1</sup> It should be noted that 12 CFR §§ 621.30 – 621.32 apply to qualified public accountants who are retained to perform audits as set forth therein.

**E. Internal Audit (Employee)**

1. Designate a Director of Internal Audit or other Association employee who is responsible for overseeing and coordinating the Association's audit and review programs (referred to herein as Director of Internal Audit).
2. Ensure that the Director of Internal Audit reports administratively to management but remains accountable to the Committee, whereby the Committee has the authority to hire, discipline, and conclude the employment of the Director of Internal Audit without separate or further action of the Board except as otherwise required by law or Association guidance.
3. Directly supervise the Director of Internal Audit, including establishing Performance Standards and Objectives and conduct the annual Performance Assessment Review.
4. Ensure that the Director of Internal Audit has the necessary competencies to successfully implement the audit-related programs of the Association in a proficient and professional manner.
5. Ensure that the Director of Internal Audit is independent and objective, including ensuring that the Director of Internal Audit is not involved in developing and installing procedures, preparing records, or engaging in any other activity that he/she would normally review.
6. Ensure that no inappropriate restrictions are placed on the Director of Internal Audit, including any scheduling or budgetary restraints imposed by management.
7. Ensure that the Director of Internal Audit: (a) discharges all of his/her duties and responsibilities in a timely and effective manner; (b) reviews and approves the annual risk assessment and the annual and three-year audit plans developed and recommended by or in consultation with the internal auditor, as appropriate, taking into account all relevant factors, including the size, complexity, and risk profile of the Association; and (c) satisfies all other the Performance Goals established by the Committee.

**F. Audits**

1. Audit, Generally
  - a. Ensure that the Association's guidance on the audit and review function sufficiently address: (i) the development and use of risk assessment tools; (ii) the steps involved in creating the audit and review plan; (iii) the process for staffing audit and review programs with qualified personnel; (iv) the practices and process for conducting fieldwork and testing, completing work programs, and maintaining workpaper documentation; and (v) how the audit and review findings will be reported to the Board.

- b. Ensure that audit and review activities are conducted in accordance with professional standards applicable to the scope of the work being performed, including standards established by the Institute of Internal Auditors (IIA) International Professional Practices Framework or the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct and Standards for Consulting Services, if and as applicable.
- c. Ensure that the scope and frequency of audits and reviews are sufficient to attain planned objectives and reflect an appropriate prioritization of auditable areas, taking into account: (i) the risk assessment results and any changes in the Association's risk profile; (ii) conclusions from previous audit and review activities; (iii) regulatory requirements and guidelines, including any new or revised regulations or FCA National Oversight Plan topics; (iv) the nature of the operational processes and related assets and liabilities within each potential audit and review area; (v) the existence and effectiveness of applicable policies, procedures, and internal controls (*e.g.*, separation of duties, management reviews, reporting processes), ensuring that areas with weaker or more limited controls undergo more frequent, in-depth testing; (vi) the potential materiality of errors, omissions, and irregularities; (vii) the potential for fraud and adequacy of anti-fraud controls; and (viii) resources available to complete the work.
- d. Ensure that the process for reporting audit and review activities and results are adequate and provide the Board with assurances that: (i) material weaknesses, including their underlying causes, are being identified and corrected in a timely manner; (ii) reports clearly communicate the audit or review scope, findings, conclusions, and recommendations to appropriate parties and are distributed as soon as practicable after completing the related work; (iii) reports are complete, accurate, and provide sufficient detail on the purpose, objectives, scope, results, conclusions, and recommendations; and (iv) material findings and conclusions are communicated soon after they are identified and are not postponed until after the final report is issued, to the extent such findings and conclusions are made prior to the final report.
- e. Ensure that: (i) the Board is provided with necessary information to monitor the audit and review program; and (ii) sufficient processes are in place to track progress on completing planned audits and reviews in accordance with the approved plan and to monitor and report on the timely disposition of audit and review findings.
- f. Ensure that: (i) the audit and review coverage are sufficient; (ii) the audit scope and depth are sufficient and are consistent with approved plans; (iii) the audit and review results are reliable; (iv) the audit and review reports sufficiently communicate work performed, results, and recommendations; and (e) management responses to audits and reviews are reasonable, complete, and timely and that any corrective actions have been effective.
- g. Review and approve the annual budget for all audit-related functions, including internal resources and external audit and consulting services.



## 2. Risk Assessment

- a. Ensure that a risk assessment is completed on at least an annual basis and: (a) adequately addresses all significant business activities, appropriately identifies and prioritizes risks, and is completed in accordance with Association guidance; (b) begins by defining the audit universe, including a comprehensive listing of business activities and operations relevant to the Association (*i.e.*, current and prospective business, product lines, and services); (c) evaluates and incorporates current and emerging risks and controls associated with the identified functions and activities; (d) addresses how internal and external risk factors potentially impact each auditable area; (e) considers the possible impact of the various risks on achieving strategic business objectives and the likelihood of their occurrence; (f) guides the audit and review plan development, the audit schedule, and the scope and objectives of the individual audits and reviews, enabling the Association to focus on the areas of greatest risk and set priorities; and (g) is updated, as appropriate, when the Association experiences significant growth, introduces new products, revises its procedures, experiences turnover in staff in key roles or above normal turnover rates, activities shift, or laws applicable to the Association change.
- b. Ensure that: (a) the risk assessment sufficiently addresses IT and security topics and identifies related risk exposures (*e.g.*, that threaten data integrity, financial condition, financial performance, continuity of operations, regulatory compliance, and customer service); (b) an IT audit plan is developed based on the results of the risk assessment; (c) audit resources are independent, competent, and have the necessary experience to accomplish the IT audit objectives; and (d) written reports are prepared for the Committee that outline the results of each audit or review, which reports include a description of scope and findings, underlying causes of weaknesses, conclusions, and recommendations for corrective action.
- c. Ensure that the risk assessment and audit and review scope address IT and security topics and that the: (a) audit frequency of such topics is commensurate with the complexity of the Association's operations and risk profile; (b) audit program of IT and security topics provide reasonable assurance that such processes are sound and that related reporting is complete and accurate; (c) scope of the audit or review covers key processes and controls, including: (i) IT and security policies, procedures, and other guidance; (ii) compliance with IT and security-related regulations, policies, and procedures and include sufficient testing to detect non-compliance with established criteria; (iii) Board reporting systems for monitoring IT and security activities and incident response processes; (iv) access controls (both physical and logical) to ensure unauthorized attempts to gain access to the operating and application systems are recorded, monitored, and responded to by independent parties; (v) computer operations, including physical and logical safeguards to critical systems, business resumption practices, network performing monitoring, and vendor management; (vi) quality of assistance provided to users, including the ability to handle problems; and (vii) fraud-related threats and vulnerabilities, as well as anti-fraud controls; (d) internal audit reports sufficiently communicate IT and security review results and recommendations, if applicable; and (e) IT and security processes are functioning effectively and in compliance with applicable laws and guidance.

3. Audit Plan and Scope

- a. Ensure that the audit and review plan(s) address, at a minimum, individual audit objectives and scope, summary of the risk assessments and any compliance issues for each auditable area or business activity, the timing and frequency of planned audit work and review work (including a schedule of past, current, and future activities), and a resource budget.
- b. Ensure that the audit and review plan(s) sufficiently address all material operational areas and risks, including identifying and evaluating the quantity of institutional risks and the quality of controls over those risks, and that the risk assessment and audit plan aim to provide the Board and management with reasonable assurance of adequate audit and review coverage in all high-risk and significant operational areas, with rotational coverage of lower risk areas.

**G. Third-Party Retention and Oversight**

1. Perform sufficient due diligence to verify the competency of any third-party resource before engaging or employing such resource to perform audit-related work for the Association, including verifying that each such party adheres to appropriate professional standards applicable to the work requested; confirm with the Standards of Conduct Official that no conflict of interest exists and all standards of conduct-related requirements for retention have been satisfied before any third-party resource is retained.
2. Approve and oversee the review, negotiation, and completion of engagement agreements with third-party auditors who are retained to perform any audits, collateral reviews, credit reviews, or operational reviews or other work as permitted by this charter and ensure that the scope of the work as set forth in each such engagement agreement is commensurate with the scope of the work approved in the audit plan in terms of time period, terms and conditions, and adequacy and identifies the persons performing such work and their qualifications for same.
3. Periodically evaluate the quality of the work performed by any third-party resource retained for audit-related work and such party's ongoing competency and making any changes in the retention of such party, as appropriate, including changing third-party resources, if necessary.
4. Ensure that third-party auditors retained by the Association to perform audit work and who are qualified public accountants do not provide prohibited non-audit services to the Association as set forth in 12 CFR §§ 621-30 – 621.32. Prohibited non-audit services that may not be provided by a qualified public accountant under 12 CFR § 621.31 are: bookkeeping; financial information systems design; appraisal and valuation services; actuarial services; internal audit outsourcing services; management or human resources functions; legal and expert services unrelated to the audit; and advocating an institution's interests in litigation, regulatory, or administrative investigations and proceedings unrelated to external audit work.

5. Ensure that the total fees paid to the qualified public accountant engaged to conduct the Association's financial statement audit are accurately disclosed in the annual report as required by 12 CFR § 620.5(i)(2) and that such fees are broken into three categories (*i.e.*, audit services, non-audit services, and tax services) and that non-audit services were approved by the Committee.
6. Ensure that the Association does not engage a qualified public accountant to conduct an audit for the Association if the accountant uses a partner, concurring partner, or lead member in the audit engagement team who was a director, officer, or employee of the Association within the past year.
7. Ensure that any qualified public accountant who performs an audit for the Association does not utilize the same lead and reviewing audit partners for more than five consecutive years and that the lead and reviewing audit partners of such accounting firm rotate out of the audit team for five years if they have served as lead and reviewing audit partners for five consecutive years. After the lead and reviewing audit partners have rotated out of the audit team for five years, the Association may again engage the audit services of those lead and reviewing audit partners.

#### **H. Compliance**

1. Review the effectiveness of the System for monitoring compliance with applicable laws and guidance and the results of management's investigation and follow-up (including disciplinary action) of any instance of non-compliance.
2. Review the findings of any examinations by regulatory agencies and any auditor observations and management's response to same.
3. Ensure that special investigations within the Committee's scope of responsibility, including any report or complaint made through the Association's hotline or online reporting system, are performed as needed or as otherwise required, which investigations shall be performed, or cause to be performed, by the Standards of Conduct Official or as otherwise provided by Association guidance and applicable law; nothing herein or otherwise shall authorize the Committee or any other person to interfere with an investigation that is properly being performed by another person.
4. Review the process for communicating the Code of Ethics and Standards of Conduct to employees and directors of the Association and for confirming compliance therewith.
5. Obtain regular updates from management and Association counsel regarding compliance matters.

**I. Coordination with the CoBank and/or System Audit Committee**

1. Review reports from the Association with the CoBank and/or System Audit Committee regarding all significant deficiencies and material weaknesses in the design or operation of key internal controls over financial reporting that are identified.
2. Review reports from the Association with the CoBank and/or System Audit Committee regarding any fraud that involves management or other employees who have a significant role in internal controls regardless of materiality.
3. Review reports from the Association with the CoBank and/or System Audit Committee regarding any significant issues regarding questionable accounting, auditing matters, fraud, corruption, or operational weakness originating from the Association's hotline or online reporting system or otherwise.
4. Address concerns presented by the CoBank and/or System Audit Committee and conduct any investigations or other Committee activities that are necessary to enable the CoBank and/or System Audit Committee to fulfill its chartered responsibilities.

**J. Reporting Responsibilities**

1. Regularly report to the Board on Committee activities, issues, and related recommendations and maintain meeting minutes evidencing Committee members' agreement or disagreement with items upon which the Committee acts.
2. Provide an open avenue of communication between internal and external audit functions, on the one hand, and the Board, on the other hand.
3. Report annually to the shareholders, describing the Committee's composition, responsibilities, and the discharge of its duties and any other information required to be reported by applicable guidance.
4. Review any other reports issued by the Association relating to Committee responsibilities.

**K. Other Responsibilities**

1. Ensure that the qualifications, training, and independence of any audit and review program staff, including the Director of Internal Audit, are adequate relative to the Association's complexity and risk.
2. Review and assess the adequacy of the Committee's charter on an annual basis, requesting Board approval for proposed changes.

3. Confirm annually that all duties and responsibilities outlined in this charter have been discharged or satisfied; if any duty or responsibility is not discharged or satisfied, then ensure that such reasons for same are noted.
4. Conduct an annual self-assessment of the Committee and its performance and recommend any changes to the charter based on an evaluation of the results of the self-assessment.
5. Perform other activities related to the duties and responsibilities delegated by the Board to the Committee as set forth in this charter or any policy or procedure approved by the Board related thereto and discharge any other duties or satisfy any other responsibilities as required by law or applicable guidance.

## **RESOURCES**

The Committee shall have access to monetary and nonmonetary resources of the Association, including access to books, records, facilities, and personnel of the Association and including resources sufficient to enable the Committee to contract for third-party auditors, outside advisors, and ordinary administrative expenses, as necessary to discharge its duties and satisfy its responsibilities under this charter. The Committee has the power to hire and retain independent counsel and other expert advisors, who are needed to assist the Committee in performing its duties, and to conclude the retention of any such persons. Any outside counsel or other advisor retained by the Committee as provided by this charter must be qualified and reputable for the work to be performed, satisfy applicable guidance, including FCA regulations and the Association's Standards of Conduct Policy for Agents, regarding the retention of agents before any such person is retained, shall work directly for, and report directly to, the Committee, and shall be independent of management. Unless authorized by amendment to this charter, the Committee shall not delegate any of its authority to any subcommittee.

The retention of outside counsel or other expert advisors is subject to prior notification of the Board Chairman or Board Vice-Chairman, as the situation may dictate. A two-thirds majority vote by the full Board is required to deny the Committee's request for resources.

## **TRAINING**

The Board shall ensure that Committee members receive ongoing training on financial reporting, IT and security-related matters, internal investigations, and other topics related to the duties and responsibilities set forth in this charter or as otherwise required by the Board. The training must provide a solid platform for the Committee to discharge its duties and responsibilities effectively.

## **CONSTRUCTION AND APPLICATION**

This charter shall be construed and applied in a manner that is consistent with applicable law and Association guidance, and the Committee shall discharge its duties and responsibilities as required by law and applicable Association guidance, notwithstanding anything to the contrary.