



Regulated Financial Institutions Alert

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Federal Reserve Board delays revised capital limit for trust preferred securities

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On March 16, 2009, the Board of Governors of the Federal Reserve System delayed the March 31, 2009, effective date for the amendment to the board's capital adequacy guidelines on trust preferred securities for bank holding companies. To promote stability in the financial markets and the banking industry, the board delayed the effective date until March 31, 2011, citing the continuing stressed conditions in the financial markets.

In 2005, the board published a final rule amending its risk-based capital standards for bank holding companies to:

- allow the continued inclusion of outstanding and prospective issuances of trust preferred securities in Tier 1 capital of bank holding companies subject to stricter requirements; and
- revise the requirements generally applied to the aggregate amount of restricted core capital elements (including trust preferred securities) included in Tier 1 capital of bank holding companies.

Currently, a bank holding company may include up to 25 percent of total core capital elements in Tier 1 capital cumulative perpetual preferred stock and trust preferred securities. However, the perpetual preferred stock issued to the Treasury Department pursuant to the Treasury's Capital Purchase Program was specifically excluded from this limitation by the board in October 2008.

Under the new limits adopted in 2005, restricted core capital elements includable in Tier 1 capital will be limited to 25 percent of the total core capital elements net of goodwill, less any associated deferred tax liability. For "internationally active" bank holding companies, the amount of restricted core capital elements (other than qualifying mandatory convertible preferred securities) includable in Tier 1 capital will be limited to 15 percent of the total core capital elements net of goodwill, less any associated deferred tax liability. An internationally active bank holding company is a bank holding company that:

- as of its most recent year-end FR Y-9C, reports total consolidated assets equal to \$250 billion or more; or
- on a consolidated basis, reports total on-balance-sheet foreign exposure of \$10 billion or more in its filings of the most recent year-end FFIEC 009 Country Exposure Report.

Noting its continuing interest in assuring the appropriate regulatory capital treatment of trust preferred securities, the board stated that institutions that intend to issue new trust preferred securities and other restricted core capital instruments should consult with the appropriate Reserve Bank and board staff before issuance.

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