

## Corporate & Financial Weekly Digest

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### Federal Reserve Issues Large Bank Capital Guidance

On November 17, the Federal Reserve Board issued guidelines for evaluating proposals by large bank holding companies (BHCs) to undertake capital actions in 2011, such as increasing dividend payments or repurchasing or redeeming stock. According to the Board, “The criteria provide a common, conservative approach to ensure that BHCs hold adequate capital to maintain ready access to funding, continue operations, and continue to serve as credit intermediaries, even under adverse conditions.” Bank holding companies should consult with Federal Reserve staff before taking any actions that could result in a diminished capital base, including actions such as increasing dividends, implementing common stock repurchase programs, or redeeming or repurchasing capital instruments more broadly (planned capital actions).

The criteria for evaluating capital distributions are outlined in a revised temporary addendum to Supervision and Regulation letter 09-4, “Dividend Increases and Other Capital Distributions for the 19 Supervisory Capital Assessment Program Firms.” The guidelines state that any capital distribution plan will be evaluated on the basis of a number of criteria, with particular emphasis on:

- the firm’s ability to absorb losses over the next two years under several scenarios, including an adverse macroeconomic scenario specified by the Federal Reserve and adverse scenarios appropriate for a particular firm’s business model and portfolios;
- how the firm will meet Basel III capital requirements as they take effect in the United States, in the context of the proposed capital distributions as well as any anticipated impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act on the firm’s business model or capital adequacy; and
- the firm’s plans to repay U.S. government investments, if applicable. BHCs are expected to complete the repayment or replacement of any U.S. government investments in the form of either preferred shares or common equity prior to increasing capital payouts through higher dividends or stock buybacks.

Those large bank holding companies that participated in the Supervisory Capital Assessment Program (SCAP) are encouraged to have their capital plans filed by January 7, 2011, irrespective of whether they intend to undertake any capital distributions. The Federal Reserve expects SCAP BHCs to complete the repayment or replacement of any outstanding U.S. government investment in the form of common equity or preferred shares as well as satisfy any conditions related to Troubled Asset Relief Program repayment plans prior to taking any other capital actions.

Further, the Federal Reserve will take Basel III into consideration in reviewing proposed capital actions.

The Federal Reserve expects to respond to capital distribution requests beginning in the first quarter.

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