Corporate & Financial Weekly Digest

Posted at 11:56 AM on November 12, 2010 by Jeffrey M. Werthan

FDIC Board Proposes Implementation of Dodd-Frank Assessment Changes and Revised Assessment System for Large Institutions

On November 9, the Federal Deposit Insurance Corporation approved two proposed rules that would amend the deposit insurance assessment regulations. The first would implement a provision in the Dodd-Frank Wall Street Reform and Consumer Protection Act that changes the assessment base from one based on domestic deposits (as it has been since 1935) to one based on assets. The second proposal would re-propose changes for the deposit insurance assessment system for large institutions ($10 billion and higher) given Dodd-Frank's changes to the assessment base. This proposal replaces a proposed rule approved by the FDIC Board in April.

In accordance with a provision in Dodd-Frank, the FDIC is proposing to change the assessment base from adjusted domestic deposits to average consolidated total assets minus average tangible equity. Since the new base would be much larger than the current base, the FDIC is also proposing to lower assessment rates, which achieves the FDIC's goal of not significantly altering the total amount of revenue collected from the industry.

The second assessment-related item replaces a proposed rule revising the deposit insurance assessment system for large institutions that was approved by the FDIC on April 13. The proposal approved on November 9 would eliminate risk categories and debt ratings from the assessment calculation for large banks and would instead use scorecards. The scorecards would include financial measures that are predictive of long-term performance.

The proposed rule incorporates a change in the timing of assessments in that it appears to measure when risk is assumed as opposed to when problems develop. Speaking of this forward view of assessment, FDIC Chairman Sheila Bair stated, "Over the long term, institutions that pose higher risk would pay higher assessments when they assume these risks rather than when conditions deteriorate. During the crisis, it became clear that our large bank pricing metrics were lagging indicators of financial deterioration, to a greater extent than the metrics we use for smaller institutions."

Both proposals will have a 45-day comment period upon publication in the *Federal Register*. The FDIC is also proposing that both changes in the assessment system be effective as of April 1, 2011.

Click here to read the first notice of proposed rulemaking.
Click here to read the second notice of proposed rulemaking.

Katten Muchin Rosenman LLP
Charlotte Chicago Irving London Los Angeles New York Washington, DC