

FEDERAL RESERVE BANK OF SAN FRANCISCO

101 MARKET STREET, SAN FRANCISCO, CALIFORNIA

October 5, 2005

BANKING SUPERVISION AND REGULATION: REGULATION Y: REQUEST FOR COMMENT

To State Member Banks, Bank
Holding Companies, U.S. Branches
and Agencies of Foreign Banks,
and Others Concerned,
in the Twelfth Federal Reserve District

Request for Comment on Definition of Small Bank Holding Company (Docket R-1235)

The Federal Reserve Board has proposed expanding the definition of a small bank holding company (BHC) under the Board's Small Bank Holding Company Policy and the Board's risk-based and leverage capital guidelines for bank holding companies. The policy statement facilitates the transfer of ownership of small community banks by permitting debt levels at small BHCs that are higher than what would be permitted for larger BHCs. Because small BHCs may, consistent with the policy statement, operate at a level of leverage that generally is inconsistent with the capital guidelines, the capital guidelines provide an exemption for small BHCs.

Currently, the policy statement and the capital guidelines define a small BHC as one with consolidated assets of less than \$150 million. However, a small BHC with consolidated assets of less than \$150 million can be ineligible for treatment under the policy statement if it meets certain qualitative criteria.

The Board is proposing to raise the small BHC asset size threshold from \$150 million to \$500 million and to amend the related qualitative criteria for determining eligibility as a small BHC for the purposes of the policy statement and the capital guidelines. The proposed amendments to the threshold and the qualitative criteria are designed to reflect changes in the industry since the initial issuance of the policy statement in 1980.

The Board is also proposing changes to the policy statement that would clarify the treatment of subordinated debt associated with issuances of trust preferred securities. The proposal indicates that such subordinated debt would be considered debt for most purposes under the policy statement, subject to a transition period.

In the near term, the Board anticipates issuing a separate request for public comment on a proposal that would make related changes in regulatory financial reporting requirements. Under that proposal, qualifying small BHCs would only be required to file parent-only financial data on a semi-annual basis (FR Y-9SP).

The docket is attached. Comments are requested by December 8, 2005.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's Internet site, at <http://www.frbsf.org/banking/letters>.

For additional information about the proposed rule, please contact our Banking Supervision and Regulation Department at (415) 974-3013.

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[Attachment: Docket R-1235](#)