

Federal Reserve Bank of San Francisco  
101 Market Street, San Francisco, California 94105

March 7, 2006

**BANKING SUPERVISION AND REGULATION:  
FINAL RULE EXPANDING THE DEFINITION  
OF A SMALL BANK HOLDING COMPANY**

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

**Final Rule on Expanding the Definition of a Qualifying Small Bank Holding Company  
(Docket R-1235)**

The Federal Reserve Board has approved a final rule that expands the definition of a qualifying small Bank Holding Company (BHC). Under the final rule, the policy statement facilitates the transfer of ownership of small community banks (small BHCs) by permitting higher debt levels than what would typically be permitted for larger BHCs. Exemptions for small BHCs may be provided because small BHCs may operate at a leverage level that is generally inconsistent with capital guidelines.

The Board revised the Policy Statement by raising the small BHC asset size threshold from \$150 million to \$500 million and amending the related qualitative criteria for determining eligibility as a small BHC. The amendments to the threshold and the qualitative criteria are designed to reflect changes in the industry since the issuance of the policy statement in 1980. The final rule is substantially similar to the proposed rule issued in September 2005 (please see our circular dated October 5, 2005) and becomes effective 30 days after publication in the Federal Register.

The Board also clarified the treatment of subordinated debt associated with issuances of trust preferred securities by revising the policy statement, which now indicates that such subordinated debt is considered debt for most purposes and is subject to a five year transition period.

A separate notice on related changes made to regulatory financial reporting requirements will be issued. Under the revised reporting requirements, qualifying small BHCs will only be required to file parent-only financial data on a semi-annual basis (the FR Y-9SP Report).

**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 final rule, please contact our Banking Supervision and Regulation Department at (415) 974-3013.

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Attachment: [Regulation Y; Docket R-1235](#)