Meeting between Federal Reserve Board Staff and Representatives of the American Bankers Association OTS-FRB Holding Company Transition Issues Task Force March 30, 2011

Participants: Teresa Curran, Kevin Bertsch, Anna Lee Hewko, Robert Maahs, Michael Sexton, Molly Mahar, Gary Knoblach, Kristin Bryant, Kathleen O'Day, Walter McEwen, Amanda Allexon, Ben McDonough, April Snyder, Anne Zorc and Tate Wilson (Federal Reserve Board).

Barrie Christman, John Dicus, Constance Lau, John Brown, Paul Huml, David Ansell, Thomas Corsi, Deneen Donnley, Michelle Adams, Mark Ferguson, Kristine Thomas, Nancy Baran, and Dawn Causey (OTS-FRB Holding Company Transition Issues Task Force Members).

Summary: Members of the American Bankers Association OTS-FRB Holding Company Transition Issues Task Force met with Federal Reserve Staff to discuss certain aspects of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") related to the transfer of savings and loan holding company ("SLHC") regulation and supervision from the Office of Thrift Supervision ("OTS") to the Federal Reserve Board. Task force members inquired about the approach for capital requirements and calculations; the role of the Federal Reserve in the approval of internal and external dividends; and intermediate holding companies for grandfathered unitary companies. Additionally, the members emphasized the importance of mutual holding company dividend waivers, and asked specific questions on holding company reporting requirements, source of strength application, holding company examinations, and systemically important entities.

Federal Reserve discussed the contents of the joint report to Congress and the Inspectors General issued, on January 25, 2011, by the Federal Reserve, OTS, OCC, and FDIC on the agencies' plans to implement the transfer of OTS authorities. Additionally, staff directed the task force members to review existing Federal Reserve Guidance such as SR Letter 09-04 Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies; SR Letter 04-18 Bank Holding Company Rating System; the Notice of Intent on Reporting published on February 8, 2011; and the Notice of Proposed Rulemaking Market Risk and Basel II Advanced Approaches issued on December 30, 2010. Staff emphasized that they are considering the application of existing Federal Reserve guidance to SLHCs, taking into account the requirements of HOLA; however, staff added that the existing elements of the Federal Reserve's supervisory programs are dynamic and may be revised given the requirements of Dodd-Frank and the appropriateness of their application to SLHCs. Finally, staff encouraged the industry to provide comment on existing and future Notices of Intent and Notices of Proposed Rulemakings specifically.

A copy of the agenda developed by the Task Force is attached below. The handout formed the basis for discussions at the meeting.

Working Agenda

ABA's OTS-FRB Holding Company Task Force Meeting
Federal Reserve Board
March 30, 2011
Washington, DC

9:30 – 10 a.m. Welcome and Introductions.

As part of the introductions our bankers will describe their holding company structures and how the HCs and banks currently interact.

Summary: The attendees represent a cross-section of the different types of holding companies: insurance, grandfathered companies, mutual holding companies, commercial, and traditional.

10 – 11:30 a.m. - Issues Discussion

1. Capital.
    a. General Approach? – It is our reading of DFA that there is a five year phase-in of the capital requirements. Yet the DFA provisions will not be implemented in a vacuum. What kind of flexibility does the Fed envision employing as it moves from current requirements to DFA to Basel? Similarly, flexibility in implementing the "no less stringent" language of the Collins amendment?
    b. Dividends. What is the Fed's role for internal and external dividends?

   Summary and Discussion:

2. What qualifies as capital and how does that differ from SLHC requirements in type or amount of capital?
    a. Example of separate accounts for insurance companies.
    b. Conflicts between regulators. One of the possible bumps in the road is differing requirements between regulators. How will conflicts be resolved?
    c. How will the Fed view or value nonbanking assets? Defaulting to 100% risk weighting for everything doesn't make sense.
3. Source of strength – what does that mean?
    a. Size issues – relatively small/shell HC v. max. HC and small depository
    b. How far up the chain?
4. Reporting Issues.

a. Initial reporting burdens – how far up and out the diversified chain? Are all of the reports necessary – Y-10 and 12 as examples? Grandfathered activity reports?
    i. Prioritize implementation?
    ii. Timing differences with SEC reporting.
b. Need a year delay. Six months is not enough time to implement the systems. Not just a vendor issue, need to map sources of information. Some entities in the structures are not regulated entities. And the Fed has historically give delays to full reporting implementation.

c. Intermediate Holding Company a solution?
    i. Raises other issues – Transactions with Affiliates (23A & B)
    ii. Only financial? May nonfinancial services be in the IHC
    iii. US only? Foreign financial services includable?
d. SAP v. GAAP for insurance companies.
e. Fiscal v. calendar reporting.

5. Mutual Holding Companies – dividend waivers and the ability to deploy and raise capital.
6. Examinations. Lots of questions.
    a. Areas of priority?
    b. What does enterprise risk management and stress testing look like for diversified HCs?
    c. Logistics.
    d. What are the Fed's plans to reach beyond the HC? It has the authority to look at any entity. Will there still deference to the functional regulator?
    e. Need guidance – "what to expect from your HC examiner."
7. Systemically Important Entities.
    a. When will they be selected, criteria for selection, and what to expect?
    b. Fed's plans to implement "enhanced capital requirements?"

   Summary and Discussion:

8. Thank you and we will follow up with items in writing.