



FEDERAL RESERVE BANK *of* KANSAS CITY

December 29, 2015

SUPERVISORY CONCERNS RELATED TO SHAREHOLDER PROTECTION ARRANGEMENTS

Attention: Chief Executive Officer of Each Tenth District Bank Holding Company and Savings and Loan Holding Company

In Brief: The Federal Reserve has issued guidance to explain supervisory concerns related to arrangements structured by bank and savings and loan holding companies (collectively, “holding companies”) to protect the financial investments made by shareholders (collectively, “shareholder protection arrangements”).

Highlights: The Federal Reserve has observed an increased interest in shareholder protection arrangements by some holding companies, and has found that many of these arrangements have negative implications on a holding company’s capital or financial position, limit a holding company’s financial flexibility and capital-raising capacity, or otherwise impair a holding company’s ability to raise additional capital and serve as a source of strength to its insured depository subsidiaries.

The guidance offers examples of the types of shareholder protection arrangements that have raised supervisory issues, and instructs Reserve Bank staff to consult with Board supervisory staff if it is determined that a particular shareholder protection arrangement impairs the holding company’s ability to raise or maintain capital, especially during a period of stress on the firm, or that provisions of the arrangement are in violation of applicable supervisory enforcement actions. In these instances, the Federal Reserve may require corrective action, which will vary depending on the facts and circumstances of the holding company, as well as applicable state and federal laws and regulations, corporate charter and by-laws, and other considerations.

Holding companies that have or are considering implementing shareholder protection agreements, particularly those contemplating transactions subject to regulatory applications or supervisory approval processes, are encouraged to contact their Federal Reserve Bank of Kansas City central point of contact or the Applications and Enforcement Department.

Contact: Please direct any questions concerning the new guidance to Examinations & Inspections Manager Jeff Legette at (800) 333-1010, extension 8816712, Applications & Enforcement Manager Judith Hazen at extension 8812789, or your Federal Reserve Bank of Kansas City central point of contact.

Internet Link: A copy of the Federal Reserve Supervision and Regulation Letter SR 15-15 is available on the Board’s public web site at:
<http://www.federalreserve.gov/bankinfo/srletters/sr1515.htm>