



Federal Reserve  
Bank of Atlanta

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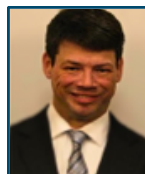
## Meet our HC Supervision Team!



**Carolyn Healy**  
Assistant Vice President  
Tenure: 38 Years  
Expertise: CBO, FBO, and  
BHC Regulatory Oversight



**Stacey Suarez, CISA**  
Director of Examinations  
Atlanta, GA  
Tenure: 18 Years  
Industry: 30 Years  
Expertise: Regulatory Reporting,  
IT Audit, Risk Management,  
Reg. W., Regulatory Applications,  
Investment Banking



**Robert Canova, CPA**  
Senior Examiner  
Atlanta, GA  
Tenure: 18 Years  
Industry: 30 Years  
Expertise: Accounting, Auditing,  
Risk Management, Regulatory  
Reporting



**Tony Johnson**  
Manager of Examinations  
Atlanta, GA  
Tenure: 31 Years  
Industry: 37 Years  
Expertise: BHC Regulations,  
Loan Review



**Shannon Boyt**  
Senior Examiner  
Atlanta, GA  
Tenure: 13 Years  
Industry: 21 Years  
Expertise: Reg. Y, Reg. W.,  
Reg. Q, BHC Accounting



**Fred Wells, CTFA, CFA**  
Senior Examiner  
Atlanta, GA  
Tenure: 25 Years  
Industry: 29.5 Years  
Expertise: Capital Markets, Trust

## Holding Company Supervision

By Stacey Suarez (S&R)

The Federal Reserve Bank of Atlanta's Community Banking Organization Holding Company Team supervises bank, thrift, and financial holding companies with total consolidated assets of less than \$10 billion. There are approximately 400 institutions in the portfolio, including 10 thrift holding companies with nonmember bank or thrift subsidiaries.

The team conducts off-site reviews, full-scope inspections, continuous monitoring, and surveillance of the institutions in our portfolio. Additional responsibilities

include opining on regulatory applications and serving as a resource for Sixth District institutions on capital actions, inter-company transactions, and other holding company-related activities.

The holding company team has significant industry experience and is happy to assist with questions and requests. If you need assistance, please email [bhcteam.requests@atl.frb.org](mailto:bhcteam.requests@atl.frb.org), and one of our team members will assist you with your holding company needs.



## Are you out of control?

By Roxana Maneiro (S&R) and  
Alan Faircloth (Legal)

Change in Bank Control Act (CIBCA), implemented through Regulation Y (12 CFR Part 225), governs changes in the controlling ownership of a financial institution. Generally, CIBCA requires that any person, or group of persons, acting directly or indirectly, provide written notice to the Federal Reserve's Board of Governors before acquiring control of a state member bank (SMB), bank holding company (BHC), savings and loan holding company, or savings association. The purpose of this article is to provide a quick overview of CIBCA and links to additional resource materials.

When working with CIBCA notices, it is important to consider definitions of key terms in the regulation, such as "acquisition," "acting in concert," and "immediate family members." It is also important to keep in mind key requirements of the regulation, such as which transactions require prior notice (12 CFR 225.41), which transactions may not require prior notice (12 CFR 225.42(b)), and which transactions may be exempt from filing (12 CFR 225.42(a)). Generally, CIBCA notices must be filed before-the-fact, meaning before the change in control actually takes place. However, some notices may be filed after-the-fact in accordance with the timeframes specified in Regulation Y, meaning that the change in control has already taken place (for example, stock acquired through inheritance).

The Reserve Bank's Applications Team has noticed an increase in after-the-fact CIBCA notifications where the notices were required by Regulation Y to have been filed prior to the acquisition.

Although after-the-fact notifications may occur inadvertently, and may be the result of an oversight or unfamiliarity with CIBCA requirements, they are still deemed to be violations of CIBCA and Regulation Y. Common scenarios that may trigger inadvertent CIBCA violations include controlling family groups, estate planning actions, establishing trusts, and inheritances where after-the-fact notice is not provided within Regulation Y timeframes.

We have been asked by a number of financial institutions if there is anything they can do to help shareholders avoid such violations. Having considered this question, we note that it is important for financial institutions to first ensure they keep accurate records of ownership, both to know who their shareholders are and their ownership percentages, as well as ensure accurate reporting of ownership on any required reports (such as the FR Y-6 Annual Report of Holding Companies where shareholders and shareholder groups with 5 percent ownership or greater must be reported). In addition, financial institutions should periodically review its list of shareholders to ensure it is accurate and current.

From a communication standpoint, financial institutions may want to inform board members and shareholders of CIBCA/Regulation Y, which may require notices of acquisitions of stock to be filed depending on the specific facts and circumstances. Such information may be provided to shareholders as part of any existing shareholder communications or in connection with shareholder meetings or even on an individual basis depending on the situation. Notably, changes in shareholder's ownership and/or any CIBCA filings by shareholders may trigger a need for the financial institution to file or update other regulatory reports, such as the FR Y-6 Annual Report of Holding Companies. Finally, because CIBCA requirements and control group situations can be complex, when in doubt, reach out to the Reserve Bank Applications Team for guidance.





## HC Dividend, Stock Redemption, and Subordinated Debt Approvals: What to Know

Shannon Boyt (S&R)

The Reserve Bank HC team often receives questions regarding whether certain capital actions by HCs require prior approval. A distinction must be made between “prior approval required” and “prior notification expected.” Two regulations may require prior approval for certain capital actions: Regulation Q (Reg. Q) and Regulation Y (Reg. Y), which includes the Small BHC/SLHC Policy Statement.

### Regulation Q

Commonly known as the “Capital Adequacy Rules,” Reg. Q applies only to those holding companies with greater than \$3 billion in consolidated assets. Reg. Q requires prior approval for redemptions of virtually any instrument included in regulatory capital, except for common stock (i.e., redemptions of common stock do not require prior approval under Reg. Q).

### Regulation Y

Reg. Y, commonly known as the “Bank Holding Company Regulation,” applies to all holding companies regardless of size. Reg. Y requires prior approval for

redemptions of common or preferred stock if the redemption amount is greater than 10 percent of the holding company’s net worth AND the holding company is in less than satisfactory condition.

### Small BHC/SLHC Policy Statement

Further, the Small BHC/SLHC Policy Statement, which is an appendix to Reg. Y, requires prior approval of dividend payments by a holding company if the holding company’s debt-to-equity ratio is greater than 100 percent.

### SR Letter 09-04

Notwithstanding the regulatory requirements noted above, Supervision and Regulation (SR) Letter 09-04, Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies, provides an “expectation” that holding company

management will provide prior notice to the Reserve Bank for any capital action (e.g., dividend payment/stock redemption/subordinated debt redemption) if the action could potentially raise safety and soundness concerns (e.g. paying dividends in excess of earnings for a period, redeeming stock or subordinated debt when capital levels are less than satisfactory, etc.).

In summary, certain actions may require prior approval under Reg. Q or Reg. Y; however, there is an expectation for prior notification any time an action may give rise to safety and soundness concerns. The Reserve Bank BHC team will review all notices and provide a timely response.



# HC Supervision: What to Expect for Holding Companies with Total Consolidated Assets of \$10 Billion or Less

Robert Canova (S&R)



The Bank Holding Company Act, originally enacted in 1956, provides the Federal Reserve the authority to inspect holding companies (HCs), much like regulators examine a depository institution. It also provides a framework to conduct the supervision of HCs that control a subsidiary depository institution. To accomplish its supervisory goals, the Federal Reserve relies on periodic on-site and off-site HC inspections to assess the safety and soundness of supervised HCs and non-depository subsidiaries, dependent on the level and nature of the risks involved. Each HC is reviewed at least once during each “supervisory cycle.” For each HC, its supervisory cycle is determined primarily by the examination frequency of its lead subsidiary depository institution.

## **HCs with consolidated assets between \$3 billion and \$10 billion**

Like depository institutions, the Federal Reserve tailors its supervision of HCs based on the size and activities of the institution. Generally, HCs with total consolidated assets between \$3 billion and \$10 billion are subject to the RFI rating system, which incorporates a rating for risk management (R), financial condition (F), impact on subsidiary depository institutions (I), and a composite rating (C). Each component is rated between 1 and 5. The scope and frequency of inspections of a HC with

total consolidated assets between \$3 billion and \$10 billion is dependent on a number of factors such as the asset size, rating, and examination cycle of the holding company's subsidiary depository institution. The purpose is to determine whether the profile of the HC has weakened, whether the HC is having an adverse effect on the subsidiary depository institution, or if there are violations of either law or regulation warranting further review. HCs in weakened condition, rated “3,” “4,” “5,” are subject to closer supervision and will likely be inspected on a more frequent basis, to ensure each elevated risk is thoroughly reviewed. Generally, complex HCs in satisfactory condition are inspected at least once per calendar year, while noncomplex HCs may be inspected every other year. Results are usually communicated to the HC's board of directors through a formal report of inspection.

## **Complexity Factor**

As noted, the complexity of the HC is a key factor in the inspection process, with more complicated holding companies subject to more frequent and in-depth review. Complexity is determined by the nature and scope of the non-depository and financial activities such as the extent of intercompany transactions between insured depository institution subsidiaries

and the HC; the risk, scale, and complexity of activities of any non-depository subsidiaries; and the degree of leverage at the HC, including whether its debt is outstanding to the public. As a result, some HCs that engage in complex activities, but have less than \$3 billion in consolidated assets, are also subject to the RFI rating system.

## **Noncomplex HCs with consolidated assets less than \$3 billion**

However, noncomplex HCs with total consolidated assets less than \$3 billion are supervised largely off-site and assigned only a composite rating and risk management rating, based on the ratings of the lead depository institution. Small HCs are not required to meet capital adequacy standards on a consolidated holding company basis to which larger organizations are subject. The capital adequacy of small HCs is based on the subsidiary depository institution's capitalization, just as if the HC was not present. Rather, small HCs are expected to meet the small bank holding company policy statement's debt-related requirements, and each of a small HC's insured depository subsidiaries is expected to be well capitalized. Results of the HC reviews are typically communicated to the HC's board of directors through a brief letter format.

Continued ...

## HC Supervision: What to Expect for Holding Companies with Total Consolidated Assets of \$10 Billion or Less

### Regular Surveillance

In addition to inspections, surveillance remains a key tool that the Federal Reserve uses to accomplish supervisory goals. In recent years, changes to the frequency requirements for depository institution examinations, enhancements to off-site monitoring procedures, and the implementation of more risk-focused inspection practices enabled the Federal Reserve to focus supervisory activities on HCs exhibiting the greatest degree of risk and to monitor those activities more closely.

### Achieving the Objective

The Federal Reserve's primary supervisory objective in its HC inspection program is to ascertain both the financial strength of the HC and evaluate consequences of transactions between a HC or its non-depository subsidiaries and its subsidiary depository institution. As reflected in its approach to supervising small HCs, the Federal Reserve remains committed to using its supervisory authority to appropriately monitor risks among HCs. The framework for the supervision is tailored to reflect size, complexity, and activities of the institution. If you have any questions, please reach out to the team.

## TELL ME MORE

- **The Fed - SR 13-21: Inspection Frequency and Scope Expectations for Bank Holding Companies and Savings and Loan Holding Companies that are Community Banking Organizations** -Revised December 16, 2022 ([federalreserve.gov](https://www.federalreserve.gov)).
- **The Fed - SR 19-4 / CA 19-3: Supervisory Rating System for Holding Companies with Total Consolidated Assets Less Than \$100 billion** ([federalreserve.gov](https://www.federalreserve.gov)).
- **eCFR: Appendix C to Part 225, Title 12 - Small Bank Holding Company and Savings and Loan Holding Company Policy Statement Ensuring** ([ecfr.gov](https://www.ecfr.gov)).

## ADDITIONAL RESOURCES

- [Banking Applications Resources](#)
- [Applications Hot Topics](#)
- [Understanding Federal Reserve Supervision and Becoming a State Member Bank](#)
- [Ask The Fed](#)
- [Partnership for Progress: A Program for Minority-Owned and De Novo Institutions](#)
- [Commercial Real Estate \(CRE\) Market Index](#)
- [Federal Reserve Bank of Atlanta](#)
- [Home Ownership Affordability Monitor - Federal Reserve Bank of Atlanta](#)
- [Community Banking Connections - A Supervision and Regulation Resource](#)
- [Federal Banking Regulations](#)





# Ensuring the Accuracy of the Regulatory Reports – FR Y-9SP

Robert Canova (S&R)

Holding companies (HCs) are required to file regulatory financial reports with the Federal Reserve on a quarterly or semi-annual basis. The vast majority of HCs in the Sixth District file the semi-annual FR Y-9SP report, “Parent Company Only Financial Statements for Small Holding Companies.” The FR Y-9SP report collects basic financial data on a parent company only basis in the form of an income statement (Schedule SI), a balance sheet (schedule SC), and a schedule for certain memoranda items (Schedule SC-M) for small domestic HCs.

The report is prepared in accordance with generally accepted accounting principles (GAAP). The report is prepared on an accrual basis, where income is recognized at the time it is earned, not necessarily when it was received. The equity method of accounting is used to report the HC’s investments in subsidiary banks, nonbank subsidiaries, and joint ventures in which the HC exercises significant control or influence.

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## Key Comparisons – Analyzing Dividend Capacity

Although the data reported in FR Y-9SPs is neither large nor complex, some accounting and reporting issues remain common among FR Y-9SP reporters. When the

FR Y-9SP is reconciled against Call Report data, analysts may identify discrepancies between the two reports and request revisions. As an example, on Schedule SI, analysts and examiners verify the accuracy of reporting subsidiary bank dividends to the HC. Ensuring accuracy in reporting dividends is essential in analyzing requests made by HCs whose debt-to-equity exceeds 100 percent, as this may impact the ability to pay future dividends. In general, under the “Small Bank Holding Companies and Savings and Loan Holding Companies – Policy Statement on Assessment of Financial and Managerial Factors,” small HCs whose debt-to-equity ratio is greater than 100 percent are not expected to pay corporate dividends until the debt-to-equity ratio is reduced to 100 percent or less. Typically, debt issued by the subsidiary bank is not included in the holding company’s debt-to-equity ratio under the Policy Statement. To ensure proper reporting and analysis, the amount reported for undistributed income or loss reported on Schedule SI, line 13a for bank subsidiary (ies), should match the net income reported on the Call Report, less any dividends paid.

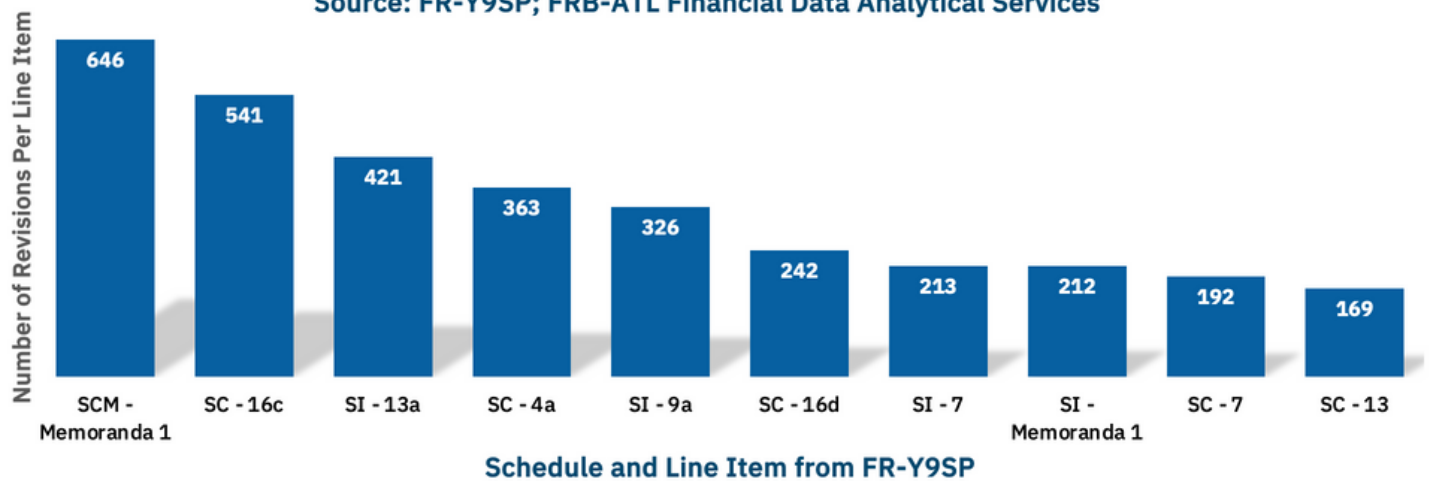
## Common Revisions – Consolidated Assets

Many HCs experience challenges appropriately eliminating balances between affiliates since many do not produce consolidated financial statements on a regular basis outside of regulatory reports. As a result, many HCs must revise the total consolidated assets after Federal Reserve analysts compare the reported balance to other regulatory reports. Over the last three reporting cycles (June 30, 2022, December 31, 2022, and June 30, 2023) line 1 on schedule SC-M (total consolidated assets) has been revised over 600 times, outpacing the next line item by 20 percent, with nearly half of the revisions occurring as of December 31, 2022.

Reporting consolidated assets correctly is a key driver for determining the level of supervisory oversight. The FR Y-9SP reports are filed by noncomplex top-tier HCs with total consolidated assets of less than \$3 billion. Once a HC reaches \$3 billion or more in total consolidated assets, through organic growth as of June 30 of a given year, the HC must file the FR Y-9C (Consolidated Financials of Holding Companies) and the FR Y-9LP (Parent Company Only Financial Statements for Large Holding Companies) in March of the following year.

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**Most Common Revisions on the FR-Y9SP in the Sixth District**  
Source: FR-Y9SP; FRB-ATL Financial Data Analytical Services

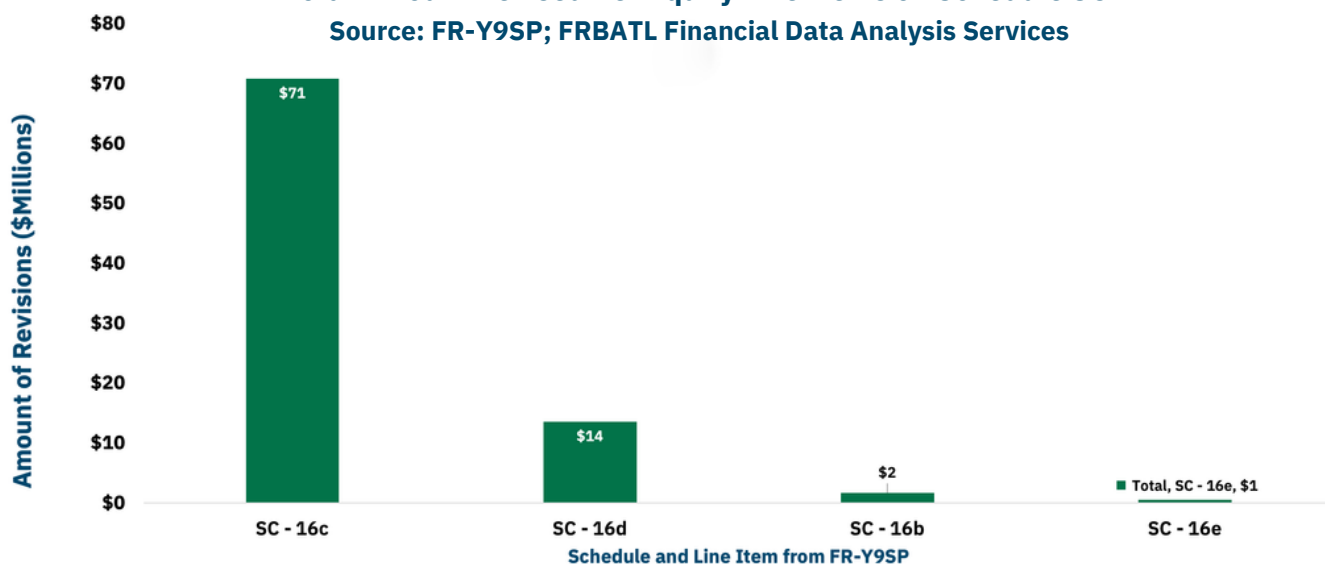


However, if a HC reaches \$3 billion or more in total consolidated assets due to a business combination (the acquisition of assets and assumption of liabilities that constitute a business), it must begin to report the FR Y-9C and the FR Y-9LP at the first quarterly reporting date following the effective date of the business combination. In general, once a HC reaches \$3 billion in total consolidated assets and begins filing the FR Y-9C and FR Y-9LP, it should continue filing those reports going forward.

#### **Schedule SC – Retained Earnings and Accumulated Other Comprehensive Income**

In terms of a single schedule, aside from Schedule SC-M line 1, often most of the errors or omissions in reporting occur on the balance sheet, Schedule SC. Among the line items with the highest balances that need revisions are equity line items for retained earnings (line 16c) and accumulated other comprehensive income or AOCI (line 16d). In the current environment, analysts have seen a lot more revisions with AOCI as HCs experienced rapid changes in their available-for-sale portfolios since the June 30, 2022 reporting date. As of December 31, 2022, the number of revisions to AOCI increased to 100 as compared with approximately 60 as of June 30, 2022 and June 30, 2023. The value should generally be equivalent to the HC's proportionate interest in the subsidiary's equity capital accounts.

**Total Amount Revised Per Equity Line Items on Schedule SC**  
Source: FR-Y9SP; FRBATL Financial Data Analysis Services

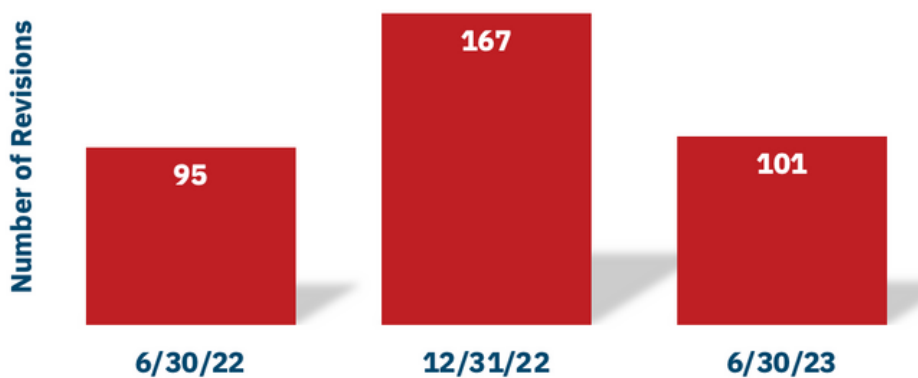


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### Investment in Bank Subsidiaries

Another problematic line item on Schedule SC is investment in subsidiaries, particularly when there is partial ownership of a subsidiary bank or nonbank subsidiary. Usually, where there is a small shell holding company with a single bank subsidiary, the balance reported in Schedule SC, on line 4a (Equity investments in bank subsidiary), will match the balance reported on the Call Report for total equity as reported on schedule RC, line 27a. A discrepancy between the FR Y-9SP report and Call Report data may indicate a change in structure and that a structure report should be filed to reflect a change in ownership. In cases where the HC owns less than 100 percent of the subsidiary bank or nonbank, but retains control, the book value amount of the HC's investment in the equity capital of the subsidiaries is reported.

#### Revisions to Investments in Bank Subsidiaries



Source: FR-Y9SP; FRBATL Financial Data

### In Summary...Reviewing your Regulatory Reports

To ensure the accuracy of reported data, Federal Reserve Bank of Atlanta analysts perform period-to-period consistency checks, paying particular attention to unusual fluctuations. Analysts also verify that the data and any explanations provided by HCs are consistent with accounting rules and reporting interpretations. In addition, analysts often perform extended editing of the FR Y-9SP report data by cross-referencing other sources, such as the Call Report and any Securities and Exchange Commission (SEC) reports, if available. HCs and the Federal Reserve both benefit when these reports are submitted accurately because it minimizes the need for revisions to the data. Also, since the reports are publicly available, it is important from a reputational standpoint that data reported is reliable. The Federal Reserve Bank of Atlanta has developed training to assist any HC in accurately completing the report.



### TELL ME MORE

- [FR Y-9SP: Parent Company Only Financial Statements for Small Holding Companies - Federal Reserve Bank of Atlanta](#)

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