

## **Frequently Asked Questions Regarding Perpetual Preferred and Non-voting Stock**

Staff of the Board of Governors of the Federal Reserve System (Board) has developed the following Frequently Asked Questions (FAQs) to assist Board-regulated banking organizations in complying with the Board's capital requirements with respect to perpetual preferred and non-voting stock.

Except as noted below, these FAQs are staff interpretations and have not been approved by the Board. Staff may supplement or revise these FAQs as necessary or appropriate in the future. Banking organizations should direct any questions regarding these FAQs to their administrative Reserve Bank.

### **Does the Board's capital rule (12 CFR Part 217) limit the percentage of a banking organization's regulatory capital that can consist of qualifying perpetual preferred stock?**

No. The capital rule does not limit the percentage of a banking organization's regulatory capital that can consist of qualifying perpetual preferred stock. Such a restriction applied to certain perpetual preferred stock under the Board's prior capital adequacy guidelines and is no longer effective.<sup>1</sup>

### **Does either the capital rule or the Small Bank Holding Company and Savings and Loan Holding Company Policy Statement (12 CFR part 225, App. C)<sup>2</sup> require voting common shareholders' equity to be the dominant form of a banking organization's regulatory capital?**

No. Neither the capital rule nor the Small Bank Holding Company and Savings and Loan Holding Company Policy Statement require voting common shareholder's equity to be the dominant form of a Board-regulated banking organization's regulatory capital.

### **With respect to common equity tier 1 capital, are there other considerations regarding capital adequacy or voting versus non-voting common shareholders' equity that Board-regulated banking organizations should consider?**

Yes. Common equity tier 1 capital is the highest quality, most loss absorbent form of capital. For a more comprehensive discussion of capital adequacy, please refer to the comments on capital adequacy in the interagency Uniform Financial Institutions Rating System.<sup>3</sup> Shareholders' voting rights generally are a valuable corporate governance tool that permits parties with an economic interest to participate in the decision-making process through votes on corporate objectives and policy, and in electing a banking organization's board of directors. On a case-by-case basis, supervisors may provide feedback if a banking organization's capital base

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<sup>1</sup> See e.g., 12 CFR Part 225, App. A.

<sup>2</sup> Bank holding companies and savings and loan holding companies that (i) have less than \$3 billion in consolidated assets, (ii) are not engaged in significant nonbanking activities, (iii) do not conduct significant off-balance sheet activities, and (iv) do not have a material amount of registered securities outstanding (excluding trust preferred securities), are exempt from the capital rule and are instead subject to debt-to-equity ratio requirements under the Board's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement.

<sup>3</sup> See <https://www.federalreserve.gov/boarddocs/srletters/1996/sr9638.htm>.

is composed predominantly of non-voting common shareholders' equity. Banking organizations are encouraged to discuss potential supervisory concerns with their Reserve Bank.

**What documents should Board-regulated banking organizations rely on with regard to the Board's regulatory capital requirements?**

A Board-supervised banking organization should refer to the capital rule (12 CFR Part 217) or the Small Bank Holding Company and Savings and Loan Holding Company Policy Statement (12 CFR Part 225, App. C), as applicable, as the definitive authority for regulatory capital requirements. The Board's Bank Holding Company Supervision Manual currently reflects requirements of a prior capital rule and will be updated to reflect the current capital rule.