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MEMORANDUM

December 20, 2011

To Our Clients and Friends

Re: Federal Reserve Proposal for Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies

The Federal Reserve is requesting comment on proposed rules that would implement the enhanced prudential standards required under section 165 and early remediation requirements established under section 166 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) for large bank holding companies and nonbank financial companies that are subject to Federal Reserve supervision. Comments are due by March 31, 2012.

The proposed rules impose certain enhanced prudential standards on bank holding companies with total consolidated assets of at least \$50 billion and nonbank financial companies that have been subjected to the Federal Reserve’s supervision by the Financial Stability Oversight Council.¹ The prudential standards include enhanced risk-based capital and leverage requirements, liquidity standards, requirements for overall risk management (including establishing a risk committee), single-counterparty credit limits, stress test requirements, and a debt-to-equity limit for covered nonbank financial companies. The proposal also includes rules to implement the early remediation requirements in Section 166 relating to establishing measures of financial condition and remediation requirements.

The proposed rules increase in stringency with the risk characteristics and level of systemic risk posed by the covered company. This ratcheting up of requirements is designed to provide incentives for covered companies to reduce their systemic footprint and to consider the external costs that their failure or distress would impose on the financial system. The proposal also establishes a core set of concrete rules to complement the Federal Reserve’s existing efforts to enhance the supervisory framework for covered companies.

¹ Although sections 165 and 166 apply to foreign companies, the proposed rules will not apply to foreign banking organizations. The Federal Reserve indicated that it will propose rules for foreign organizations in the future. However, the proposal will apply to a foreign organization’s U.S.-based bank holding company.

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A copy of the proposed rule can be found on our web site at
<http://www.schwartzandballen.com/news.html>.

If you have any questions, please call Gilbert Schwartz, Robert Ballen, Tom Fox, Heidi Wicker, or Lauren Bianchini at (202) 776-0700.