

**Supporting Statement for the  
Notice of Proposed Stock Redemption  
(FR 4008; OMB No. 7100-0131)**

**Summary**

The Board of Governors of the Federal Reserve System (Board), under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, without revision, the Notice of Proposed Stock Redemption (FR 4008; OMB No. 7100-0131). The Bank Holding Company Act (BHC Act) and Bank Holding Companies and Change in Bank Control (Regulation Y) generally require a BHC to seek prior Federal Reserve approval before purchasing or redeeming its equity securities. Given that a BHC is exempt from this requirement if it meets certain financial, managerial, and supervisory standards, only a small portion of proposed stock redemptions actually require the prior approval of the Federal Reserve. There is no formal reporting form (the FR 4008 designation is for internal purposes only) and each required request for prior approval must be filed as a notification with the Reserve Bank that has direct supervisory responsibility for the BHC. The Federal Reserve uses the information provided in the redemption notice to fulfill its statutory obligation to supervise BHCs. The current annual burden for the FR 4008 is estimated to be 155 hours.

**Background and Justification**

Section 225.4(b)(1) of Regulation Y requires a BHC to seek prior Federal Reserve approval before purchasing or redeeming its equity securities if the gross consideration for the redemption (when aggregated with the net consideration paid by the company for all such redemptions during the preceding twelve months) is equal to 10 percent or more of the company's consolidated net worth.<sup>1</sup> A BHC is exempt from this requirement if it is well capitalized before and immediately after the redemption, is well managed, and is not the subject of any unresolved supervisory issues. The criteria for well capitalized and well managed are provided in sections 225.2(r) and (s) of Regulation Y.

The Board may disapprove a redemption notice if the proposal would constitute an unsafe or unsound practice or violate any law, regulation, Board order, directive, or any condition imposed by, or written agreement with, the Board. In reviewing a stock redemption notice, the Board must consider, after giving effect to the proposal, whether the financial condition of the BHC meets the financial standards applied under section 3 of the BHC Act, including the Board's regulatory capital rules (12 CFR part 217; Regulation Q) and the Board's Policy Statement for Small Bank Holding Companies (Appendix C of Regulation Y), as applicable. A BHC may request a hearing on a notice of disapproval and, at the conclusion of the hearing, the Board shall by order either approve or deny the proposed redemption on the basis of all facts of record.

The stock redemption notice provides the only source of information available to the Federal Reserve System on the structure of the transactions and the effect of the redemption on

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<sup>1</sup> Net consideration is the gross consideration paid by the BHC for all of its equity securities purchased or redeemed during the period minus the gross consideration received for all of its equity securities sold during the period.

the financial condition of the BHC. The information submitted in the notice is used in determining if the proposal is financially sound and consistent with prudent banking practices.

### **Description of Information Collection**

A stock redemption notice has no required format and generally is submitted in letter form. The informational contents of the notice are described in section 225.4(b) of Regulation Y. Each notice must contain the following information:

- Purpose of the transaction;
- Description of the type and amount of securities to be purchased or redeemed;
- Number of each class of shares outstanding;
- Gross consideration to be paid;
- Terms and sources of the funding for the proposal;
- Description of all equity securities redeemed within the preceding twelve months, the net consideration paid, and the terms of any debt incurred in connection with the redemptions; and
- Current and pro forma balance sheets.<sup>2</sup>

A stock redemption notice may be filed with related applications filed under the BHC Act, the Bank Merger Act, or the Change in Bank Control Act. The information required by the FR 4008 may be incorporated in the related application(s), with the related filings reviewed together as a single proposal.

### **Time Schedule for Information Collection**

This information collection is event generated and the notice must be filed prior to the contemplated stock redemption. Within 15 calendar days of receipt of a notice, the appropriate Reserve Bank either approves the transaction or refers the notice to the Board for a decision. Notices referred to the Board are to be acted on within 30 calendar days of the Reserve Bank's receipt of the notice, unless processing is extended with the consent of the requesting BHC.<sup>3</sup> There is no publication requirement for this notice.

### **Legal Status**

The Board's Legal Division has determined that the FR 4008 is authorized pursuant to sections 5(b) and (c) of the BHC Act (12 U.S.C. §§ 1844(b) and (c)), and the Board's Regulation Y (12 CFR 225.4). Sections 5(b) and (c) of the BHC Act generally authorize the Board to issue regulations and orders that are necessary to administer and carry out the purposes of the BHC Act and prevent evasions thereof and to require BHCs to submit reports to the Board

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<sup>2</sup> BHCs with consolidated assets of \$1 billion or more generally provide pro forma consolidated data; BHCs with assets of less than \$1 billion generally provide only pro forma parent-only data. The larger BHCs provide risk-based capital and leverage ratio calculations as of the most recent quarter, and a parent-only pro forma balance sheet if the redemption is to be debt-funded. The smaller BHCs provide parent-only pro forma balance sheets and, if the redemption is debt-funded, one-year income statements and cash flow projections.

<sup>3</sup> Stock redemption notices that are filed with related applications are generally reviewed (with the consent of the requesting BHC) under the longer timeframes associated with those related filings.

to keep the Board informed about their financial condition, systems for monitoring and controlling financial and operating risks, transactions with depository institution subsidiaries, and compliance with the BHC Act, any other Federal law that the Board has specific jurisdiction to enforce, and (other than in the case of an insured depository institution or functionally regulated subsidiary) any other applicable provision of Federal law (12 U.S.C. §§ 1844(b) and (c)). The Board’s Regulation Y requires BHCs, in certain circumstances, to file with the appropriate Federal Reserve Bank prior written notice before purchasing or redeeming their equity securities (12 CFR 225.4(b)). The FR 4008 is required for some BHCs to obtain the benefit of being able to purchase or redeem their equity securities. The individual respondent information in a stock redemption notice is generally not considered confidential. However, a respondent may request that the information be kept confidential on a case-by-case basis. If a respondent requests confidentiality, the Board will determine whether the information is entitled to confidential treatment on an ad hoc basis in connection with such request.

### Consultation Outside the Agency

On April 7, 2016, the Board published a notice in the *Federal Register* (81 FR 20384) requesting public comment for 60 days on the extension, without revision, of the FR 4008. The comment period for this notice expired on June 6, 2016. The Board did not receive any comments. On June 29, 2016, the Board published a final notice in the *Federal Register* (81 FR 42357).

### Estimate of Respondent Burden

The current annual reporting burden is estimated to be 155 hours, based on an estimated response time of 15.5 hours. Because this information collection is event-generated, it is not possible to predict exactly how many notices would be filed in a particular year. The number of notices received over the last two years is ten. These reporting requirements represent less than 1 percent of total Federal Reserve System paperwork burden.

<b>FR 4008</b>	<i>Number of respondents<sup>4</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Notice of proposed stock redemption	10	1	15.5	155

The total annual cost to the public for this information collection is estimated to be \$8,238.<sup>5</sup>

<sup>4</sup> Of these respondents, five are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) [www.sba.gov/contracting/getting-started-contractor/make-sure-you-meet-sba-size-standards/table-small-business-size-standards](http://www.sba.gov/contracting/getting-started-contractor/make-sure-you-meet-sba-size-standards/table-small-business-size-standards).

<sup>5</sup> Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at \$17, 45% Financial Managers at \$65, 15% Lawyers at \$66, and 10% Chief Executives at \$89). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages May 2015*, published March 30, 2016 [www.bls.gov/news.release/ocwage.t01.htm](http://www.bls.gov/news.release/ocwage.t01.htm). Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/).

**Sensitive Questions**

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

**Estimate of Cost to the Federal Reserve System**

Annual costs associated with providing the instructions for this notice are negligible. There are no mailing or printing costs incurred by the Federal Reserve System in administering this notice.