

October 25, 2011

To: Members of the House Financial Services Committee

From: Floyd Stoner, Executive Vice President, Congressional Relations & Public Policy

Re: ABA's View on Legislation Scheduled for Full Committee Markup

On behalf of the members of the American Bankers Association (ABA), I am writing to share our views on several bills that are scheduled for consideration before the House Financial Services Committee on Wednesday, October 26, 2011.

ABA has long advocated raising the shareholder threshold for Securities and Exchange Commission (SEC) registration, commonly referred to as the 500 shareholder threshold. We are pleased that the Committee will consider two bills to address this important issue: H.R. 1965, introduced by Representatives Jim Himes (D-CT) and Steve Womack (R-AR); and H.R. 2167, introduced by Capital Markets Subcommittee Vice Chairman David Schweikert (R-AZ).

Many community banks have had to deal with the 500 shareholder rule, which has remained in place for over 40 years without being updated, and which causes small, local banks to be subject to the same costly reporting requirements as large, public firms. Many banks that are nearing the 500 shareholder threshold have limited sources from which to raise the capital necessary to meet the credit needs of their communities without increasing the number of shareholders and triggering registration with the SEC. Once registered as public companies, community banks then become subject to disproportionately high financial and opportunity costs when compared to other smaller public companies. These regulatory requirements and costs eat into capital and limit banks' ability to make loans in their communities.

H.R. 1965, introduced by Rep. Himes and Rep. Womack, and H.R. 2167, introduced by Rep. Schweikert, would update the shareholder threshold for registration. H.R. 1965, reported by voice vote out of the Subcommittee on Capital Markets and Government Sponsored Enterprises on October 5, would update the threshold to 2,000 shareholders, a level that ABA strongly supports. This change would enable banks to deploy their capital in lending rather than spending it on regulatory requirements that provide little incremental benefit to the banks, shareholders, or the public.

In addition, H.R. 1965 addresses the threshold for deregistration, which can occur when the number of shareholders decreases and once-public businesses can become private. Currently, the number of shareholders of record must fall below 300 before a business can deregister. Raising the threshold for deregistration to 1,200 along with the threshold for registration makes a lot of sense from both a business and corporate governance perspective.

ABA strongly supports passage of legislation that updates the shareholder registration threshold to allow community banks to raise capital without adding regulatory burden, and particularly supports H.R. 1965.

The Committee also will consider two additional pieces of legislation: H.R. 2930, the Entrepreneur Access to Capital Act, by Rep. Patrick McHenry (R-NC); and H.R. 2940, the Access to Capital for Job Creators Act, by Rep. Kevin McCarthy (R-CA). ABA considers these to be thoughtful pieces of legislation that we do not believe will directly impact regulated financial institutions. Therefore, ABA has taken no position on these bills.