



Senate

General Assembly

File No. 199

February Session, 2010

Senate Bill No. 271

Senate, March 30, 2010

The Committee on Banks reported through SEN. DUFF of the 25th Dist., Chairperson of the Committee on the part of the Senate, that the bill ought to pass.

AN ACT CONCERNING THE TREASURER'S TRUST PREFERRED SECURITY PURCHASE PROGRAM.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective October 1, 2010*) (a) As used in this
2 section:

3 (1) "Commissioner" means the Banking Commissioner;

4 (2) "Connecticut trust preferred securities" means trust preferred
5 securities of eligible institutions that are issued in a pooled
6 arrangement and qualify at each participating eligible institution as
7 Tier 1 capital pursuant to the provisions of the statutes, rules,
8 regulations and interpretations that govern the Federal Reserve Board;

9 (3) "Eligible institution" means those banks and their respective
10 holding companies certified by the commissioner as being qualified to
11 issue Connecticut trust preferred securities;

12 (4) "Independent trustee" shall include any trust company or bank

13 having the powers of a trust company, within or without this state,
14 that is (A) appointed by the issuing trust as trustee under the
15 agreement or indenture that creates the reserve fund, and (B) approved
16 by the Treasurer, and includes any successor trust company or bank
17 having the powers of a trust company, within or without this state,
18 succeeding a prior trust company or bank as trustee so appointed and
19 approved;

20 (5) "Issuing trust" means the business trust formed by an eligible
21 institution for the purpose of issuing Connecticut trust preferred
22 securities;

23 (6) "Tier 1 capital" means the core measure of a bank's financial
24 strength from a regulator's point of view and includes core capital,
25 which consists primarily of common stock and disclosed reserves; and

26 (7) "Trust funds" means those trust funds listed in section 3-13c of
27 the general statutes;

28 (b) The Treasurer, as principal trustee of trust funds, shall be
29 authorized to purchase and acquire Connecticut trust preferred
30 securities issued pursuant to this section.

31 (c) Eligible institutions may form an issuing trust for purposes of
32 issuing Connecticut trust preferred securities for purchase by the
33 Treasurer on behalf of trust funds pursuant to such terms and
34 conditions as the Treasurer may prescribe.

35 (d) The terms of Connecticut trust preferred securities shall be
36 established pursuant to an indenture or other agreement between the
37 issuing trust and an independent trustee approved by the Treasurer.
38 Such indenture or agreement shall include any other covenants,
39 representations or issuing requirements imposed by the Treasurer or
40 by the statutes, rules, regulations and interpretations governing the
41 Federal Reserve Board. Such indenture or agreement may also include
42 covenants to pay the fees and expenses of the independent trustee and
43 any other provisions that the Treasurer deems necessary or

44 appropriate to secure payment of the Connecticut trust preferred
45 securities.

46 (e) If the issuing trust defers the payment of dividends on the
47 Connecticut trust preferred securities pursuant to such indenture or
48 other agreement and as permitted under the statutes, rules, regulations
49 and interpretations governing the Federal Reserve Board, the amount
50 so deferred shall be deemed appropriated from the General Fund and
51 paid to the trust funds. The trust funds shall repay the amount of the
52 deferred payments to the General Fund at such times as set forth in the
53 indenture or other agreement delivered in connection with the
54 Connecticut trust preferred securities.

55 (f) The commissioner may adopt regulations in accordance with
56 chapter 54 of the general statutes to govern the determination of
57 eligible institutions under this section.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>October 1, 2010</i>	New section

BA *Joint Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 11 \$	FY 12 \$
Treasurer	GF - Revenue Loss	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill will result in a revenue loss to the General Fund to the degree that issuing trusts defers dividend payments because the amount of the deferment is deemed to be appropriated from the resources of the General Fund. Depending on the credit quality of the underlying institution issuing the trust preferred security, for every \$100 million invested, the pension trust fund could expect to earn an annual dividend ranging from 10% to 15% or \$10 million to \$15 million, which is the amount that the General Fund would be responsible for paying if the dividend was deferred.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis**SB 271*****AN ACT CONCERNING THE TREASURER'S TRUST PREFERRED SECURITY PURCHASE PROGRAM.*****SUMMARY:**

This bill creates a program to allow for the sale of Connecticut trust preferred securities to certain state trust funds. The bill authorizes the state treasurer, as principal trustee of the trust funds, to acquire the securities issued under the program.

The trust preferred securities must (1) be issued in a pooled arrangement by banks and holding companies certified to issue them and (2) qualify at each participating bank or holding company as Tier 1 capital under the laws governing the Federal Reserve. The bill defines "Tier 1 capital" as the core measure of a bank's financial strength from a regulator's point of view. Tier 1 capital includes core capital, which consists primarily of common stock and disclosed reserves. Federal law requires banks to maintain a certain portion of their balance sheet as Tier 1 capital. In 1996, the Federal Reserve specified that bank holding companies could treat the proceeds of the sale of trust preferred securities as Tier 1 capital, if certain conditions were met.

The treasurer, pursuant to terms and conditions she prescribes, would purchase the trust preferred securities on behalf of specified trust funds.

EFFECTIVE DATE: October 1, 2010

TRUST PREFERRED SECURITIES PROGRAM

The bill allows banks and their respective holding companies to form a business trust (the issuing trust) to issue trust preferred securities. The treasurer may purchase the securities on behalf of

specified trust funds under terms and conditions she determines.

The bill defines trust funds to include the Municipal Employees' Retirement Fund A; Connecticut Municipal Employees' Retirement Fund B; Soldiers; Sailors and Marines Fund; State's Attorneys' Retirement Fund; Teachers' Annuity Fund; Teachers' Pension Fund; Teachers' Survivorship and Dependency Fund; School Fund; State Employees Retirement Fund; the Hospital Insurance Fund, Policemen and Firemen Survivor's Benefit Fund and all other trust funds administered, held, or invested by the Treasurer.

Eligible Banks

The banking commissioner must certify banks and their respective holding companies before they may participate in the program. The bill authorizes the commissioner to adopt regulations establishing the certification process or criteria for determining which banks and holding companies can issue Connecticut trust preferred securities.

Terms of Agreement Between Issuing Trust and Independent Trustee

Under the bill, the terms of the trust preferred securities must be established by an indenture or other agreement between the issuing trust and an independent trustee the treasurer approves. This indenture or agreement must include any covenants, representations, or issuing requirements the treasurer or the laws governing the Federal Reserve impose. The indenture or agreement may include covenants to pay the independent trustee's fees and expenses, as well as any other provisions the treasurer deems necessary or appropriate to secure payment of the trust preferred securities.

The independent trustee is a trust company or bank having the powers of a trust company; it need not be a Connecticut entity. The issuing trust appoints the independent trustee as trustee under the agreement or indenture creating the reserve fund, and the treasurer approves the appointment. A successor independent trustee meeting these requirements may be appointed.

Deferment of Dividend Payments

The bill allows the issuing trust to defer dividend payments on the trust preferred securities, if permitted to do so by the indenture or agreement between the issuing trust and independent trustee as well as the laws governing the Federal Reserve.

If the issuing trust defers dividend payments, the amount of the deferment must be deemed appropriated from the General Fund and paid to the trust funds. The trust funds must repay the amount of the deferred payments to the General Fund on the schedule established in the indenture or other agreement.

BACKGROUND***Characteristics of Trust Preferred Securities***

Federal Reserve regulations define trust preferred securities as undated preferred securities issued by a trust or similar entity sponsored by a banking organization that is the sole common equity holder of the trust. Qualifying trust preferred securities must allow for dividends to be deferred for at least five years without an event of default, with some exceptions. The required notification period for a deferral must be no more than 15 business days before the payment date (12 C.F.R. part 225, App. A).

Trust preferred securities are hybrid securities which have many characteristics of equity issues but enjoy certain tax advantages of debt issues, including the deductibility of dividend payments.

COMMITTEE ACTION

Banks Committee

Joint Favorable
Yea 18 Nay 0 (03/16/2010)