



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 19, 2008

Mr. John R. Jay
Senior Vice President
SunTrust Banks, Inc.
303 Peachtree Street, N.E., Suite 1130
Atlanta, GA 30308

Dear Mr. Jay:

This is in response to your inquiry on behalf of SunTrust Banks, Inc., and SunTrust Bank (collectively, SunTrust), both of Atlanta, Georgia, regarding the risk-based capital treatment of their holdings of Coca Cola Company (Coke) common stock.

SunTrust has held common stock in Coke since 1919, when it participated in the company's initial public offering. SunTrust's current holding of 43.5 million shares has a market value of approximately \$2.4 billion and a cost basis of approximately \$110,000. SunTrust holds 20.7 million shares of Coke common stock through SunTrust Bank. Although U.S. banks generally are prohibited by statute from owning shares of stock of nonfinancial companies, SunTrust Bank holds its Coke stock pursuant to a statutory grandfather exception. SunTrust Bank is the only U.S. bank with such a large common stock holding in a nonfinancial company. SunTrust Bank intends in the near future to sell ten million shares of Coke stock with a current market value of \$558 million and to contribute 3.6 million shares of Coke stock with a current market value of \$199 million to SunTrust Charitable Foundation (the Initial Bank Transfers). The net effect of these transactions is that SunTrust Bank will have approximately 7.1 million shares of Coke stock with a current market value of \$396 million. SunTrust also holds 22.9 million shares of Coke stock with a current market value of \$1.3 billion at the holding company level.

SunTrust holds its Coke stock as available-for-sale (AFS) securities under generally accepted accounting principles (GAAP). Accordingly, the carrying value of the Coke stock on the consolidated balance sheet of SunTrust Banks, Inc. before

the Initial Bank Transfers is equal to the market value of the Coke stock owned directly or indirectly by the holding company (\$2.4 billion). SunTrust Banks, Inc. is permitted to include approximately \$1.5 billion of this amount in its GAAP equity as a component of accumulated other comprehensive income. The carrying value of the Coke stock on the consolidated balance sheet of SunTrust Bank before the Initial Bank Transfers is equal to the market value of the Coke stock owned directly or indirectly by SunTrust Bank (\$1.1 billion), and the bank is permitted to include approximately \$725 million of this amount in its GAAP equity.

Under the Board's capital adequacy guidelines (capital rules), a bank holding company or state member bank must deduct from its tier 1 capital any unrealized gains on AFS equity securities but may include in tier 2 capital 45 percent of the amount of any pretax unrealized gains on AFS equity securities.¹ The capital rules exclude unrealized gains on AFS equity securities from tier 1 capital and permit only partial inclusion of such unrealized gains in tier 2 capital because of the high price volatility of equity securities and because of the tax liability an institution would face if it were to sell the securities to realize the gain. Accordingly, unrealized gains on Coke stock do not generate any tier 1 capital for either SunTrust Banks, Inc. or SunTrust Bank but generate approximately \$1.1 billion of tier 2 capital for SunTrust Banks, Inc. (45 percent of \$2.4 billion) and \$520 million of tier 2 capital for SunTrust Bank (45 percent of \$1.1 billion).

Each SunTrust company that owns Coke stock now proposes to enter into collateralized forward purchase contracts under which the SunTrust company would agree to sell, and a third-party financial institution (Counterparty) would agree to purchase, the Coke stock held by such company (after the Initial Bank Transfers) in approximately seven years at the then-current market price, subject to a floor price of 75 percent of its current market value (minimum proceeds amount) and a ceiling price of [] percent of its current market value.² At inception of the transaction, the

¹ 12 CFR parts 208 and 225, App. A, § II.A.2.e. The capital rules are consistent with the original 1988 Basel Accord on this point.

² SunTrust has indicated that it currently expects to dispose of all its Coke stock through the Initial Bank Transfers and the forward purchase contracts but has retained the discretion to sell its remaining Coke shares through some other market transaction consummated no later than 60 days after maturity of the forward purchase contracts. SunTrust has agreed that it will not retain any Coke shares after this date unless it obtains written approval from the Board.

Counterparty also will purchase a note issued by each SunTrust company that holds Coke stock in a principal amount equal to the minimum proceeds amount of the associated forward contract. The cash received by SunTrust from the Counterparty in exchange for the notes will be immediately available for unrestricted use by SunTrust. The Counterparty will pledge these notes as collateral to secure its purchase obligation under the forward contracts. SunTrust may foreclose on the notes pledged as collateral and retain the cash proceeds of the notes if the Counterparty fails to satisfy its payment obligation under the forward contract or goes into bankruptcy or receivership.

The Board has authority under the capital rules, on a case-by-case basis, to determine the extent to which an instrument qualifies as an element of tier 1 or tier 2 capital.³ SunTrust has requested an exception from the capital rules that would permit both SunTrust Banks, Inc. and SunTrust Bank, from inception of the transaction, to include in their tier 1 capital the respective aggregate minimum proceeds amount generated by the transactions (minus the associated tax liability). Under the proposal, the value of SunTrust's Coke shares over the aggregate minimum proceeds amount would not be included in the tier 1 capital of SunTrust Banks, Inc. or SunTrust Bank going forward, but SunTrust Banks, Inc. and SunTrust Bank each would be able to include in its tier 2 capital 45 percent of the difference between the respective aggregate minimum proceeds amount and the lower of (1) the market value of its Coke stock at any given time or (2) the aggregate ceiling amount of proceeds under the respective forward purchase contracts.

For the reasons discussed below, the Board believes that it is appropriate to grant SunTrust's request for an exception from the capital rules. First, under the proposal, SunTrust receives unrestricted use of the aggregate minimum proceeds amount at inception of the transaction and is assured of its ability to retain at least the aggregate minimum proceeds amount going forward regardless of what happens to the value of the Coke stock or the financial condition of the Counterparty. Thus, the transaction provides SunTrust with immediate cash resources for use in its business (as if the Coke stock had already been sold) and neutralizes the price-volatility concern behind the exclusion from tier 1 capital of unrealized gains on AFS equity securities. In addition, because SunTrust proposes to count in tier 1 capital only the aggregate minimum proceeds amount, as adjusted downward to reflect potential future tax liability, the proposal also addresses the tax concern behind the regulatory capital exclusion of unrealized AFS equity gains.

³ 12 CFR parts 208 and 225, App. A, § II(ii).

The proposal also would ultimately reduce the mixing of banking and commerce represented by SunTrust Bank's Coke stock holdings. As noted, Congress generally has prohibited banks from owning stock in nonfinancial companies. SunTrust Bank's holdings in Coke stock represent a grandfathered exception to the statutory prohibition. Accordingly, the proposal would regularize the SunTrust/Coke relationship and make it more consistent with the Congressional policy of preventing this sort of mixing of banking and commerce. Moreover, from a safety and soundness perspective, the forward transactions and SunTrust's ultimate sale of Coke stock thereunder will substantially reduce SunTrust's exposure to the market risk of a single equity position – a significant potential source of volatility and concentration risk for SunTrust. Importantly, because the proposal permits SunTrust to defer paying taxes on its Coke stock gain until termination of the forward contracts, the proposal represents a tax-efficient way for SunTrust to lock in most of the economic value of its existing Coke stock gain and to substantially reduce its exposure to the price volatility of Coke stock.

Based on all the facts of record, the Board hereby grants the exception from the capital rules requested by SunTrust. The Board's determination is specifically conditioned on compliance by SunTrust with all the commitments and representations made in connection with the request. These commitments and representations are deemed to be conditions imposed in writing by the Board in connection with granting the request and, as such, may be enforced in proceedings under applicable law. This determination is based on the specific facts and circumstances of the collateralized forward purchase contracts described in your correspondence and this letter. Any material change in those facts or circumstances or any failure by SunTrust to observe any of its commitments or representations may result in a different view or in a revocation of the exception.

If you have any questions with regard to this matter, please contact Norah Barger, Deputy Director, at (202) 452-2402, or John F. Connolly, Senior Project

Manager, at (202) 452-3621, in the Division of Banking Supervision and Regulation;
or Mark E. Van Der Weide, Assistant General Counsel in the Legal Division, at
(202) 452-2263.

Sincerely,

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

cc: Federal Reserve Bank of Atlanta