



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

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 18, 2020

[ ]

Dear [ ]:

Pursuant to this letter, the Director of the Division of Supervision and Regulation, acting under authority delegated by the Board, with the concurrence of the General Counsel, has granted [ ] (“Bank”), [ ], an exemption from section 23A of the Federal Reserve Act and the Board’s Regulation W to allow Bank to purchase certain assets from affiliated broker-dealers (the “Dealers”).

Section 23A and Regulation W limit the aggregate amount of “covered transactions” between a bank and any single affiliate to 10 percent of the bank’s capital stock and surplus, and limit the aggregate amount of covered transactions between a bank and all its affiliates to 20 percent of the bank’s capital stock and surplus.<sup>1</sup> “Covered transactions” include the purchase of assets by a bank from an affiliate, the extension of credit by a bank to an affiliate, the issuance of a guarantee by a bank on behalf of an affiliate, and certain other transactions.<sup>2</sup> The statute and regulation also require a bank to secure its extensions of credit to, and guarantees on behalf of, affiliates with prescribed amounts of collateral.<sup>3</sup>

A purchase of assets by Bank from the Dealers would be a covered transaction under section 23A and Regulation W. Dealers are affiliates of the Bank for purposes of section 23A and Regulation W because they are under common control of [ ].

Section 23A specifically authorizes the Board to exclude, by order, from the definition of “covered transaction” the purchase of certain assets from a

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<sup>1</sup> 12 U.S.C. § 371c(a)(1); 12 CFR 223.11 and 223.12.

<sup>2</sup> 12 U.S.C. § 371c(b)(7); 12 CFR 223.3(h).

<sup>3</sup> 12 U.S.C. § 371c(c); 12 CFR 223.14.

member bank's affiliated broker-dealers, subject to the limitations and conditions described below.<sup>4</sup>

The exemption from the quantitative limits of section 23A and Regulation W would be subject to the following limits and conditions:

- Bank may only purchase assets from a broker-dealer affiliate that is registered with the Securities and Exchange Commission.
- All assets purchased by Bank must meet the definition of "investment grade" as defined in the Board's Regulation Q (12 CFR 217.2).
- Bank must purchase the assets at fair market value as determined by a reliable third-party pricing service.
- Dealer or parent holding company must agree to repurchase from Bank, on a quarterly basis, any assets that become low-quality assets (as defined in Regulation W (12 CFR 223.3(v))) at the price paid by Bank for the assets plus any accrued but unpaid interest.
- Bank's ultimate parent holding company must agree to reimburse Bank promptly for any losses sustained by Bank in connection with the purchased assets.
- Bank and its ultimate parent holding company must remain "well capitalized" as defined in the Board's Regulations H and Y, respectively.<sup>5</sup>
- The exemption would expire one week from the date of this letter. After that date, any assets purchased by Bank pursuant to this exemption could remain with Bank and would not count towards Bank's 23A quantitative limits.

In light of these considerations, the exemption for the proposed covered transactions between Bank and the Dealers appears to be consistent with the purposes of section 23A and in the public interest. Accordingly, the exemption

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<sup>4</sup> 12 U.S.C. § 371c(b)(7)(C).

<sup>5</sup> See 12 CFR 208.43(b)(1) and 225.2(r).

is hereby issued, subject to the conditions and limits discussed above. The FDIC and OCC have been informed of this action.

This exemption is specifically conditioned on compliance by [ ] and Bank with all the conditions in this letter. Non-compliance with these conditions may result in revocation of the exemption.

Very truly yours,

*(Signed) Ann E. Misback*

Ann E. Misback  
Secretary of the Board

cc: Ricardo Delfin, Director, Division of Complex Institution Supervision & Resolution, Federal Deposit Insurance Corporation

Nicholas Podsiadly, General Counsel, Federal Deposit Insurance Corporation

Morris Morgan, Senior Deputy Comptroller, Chief Operating Officer, and Chief National Bank Examiner, Office of the Comptroller of the Currency

Jonathan Gould, Senior Deputy Comptroller and Chief Counsel, Office of the Comptroller of the Currency

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