



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

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 17, 2020

[ ]

Dear [ ]:

Pursuant to this letter, [ ] (“Bank”), [ ] has been granted 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 money market mutual funds (the “Funds”).

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 Funds would be covered transactions under section 23A and Regulation W. The Funds are affiliates of the Bank for purposes of section 23A and Regulation W because they are investment funds with respect to which Bank or an affiliate of Bank is the investment adviser.

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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.

Section 23A specifically authorizes the Board to exclude, by order, from the definition of “covered transaction” the purchase of certain assets from a member bank’s affiliated money market mutual fund, 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 Funds that are SEC-registered open-end investment companies that operate pursuant to SEC Rule 2a-7 under the Investment Company Act of 1940 (17 CFR 270.2a-7);
- Bank’s purchases of assets from the Funds would be limited to the amount necessary to cover net redemptions in the Funds, up to an aggregate maximum of 200 percent of Bank’s capital stock and surplus;
- The assets purchased by Bank from the Funds must be “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;
- 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 bank holding company must remain “well capitalized” as defined in the Board’s Regulations H and Y, respectively (12 CFR 208.43(b)(1) and 12 CFR 225.2(r)); and
- The exemption would expire six months 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 Funds appears to be consistent with the purposes of section 23A and in the public interest. Accordingly, the exemption is hereby issued, subject to the conditions and limits discussed above.

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

This exemption is specifically conditioned on compliance by [ ] and Bank with all the conditions in this letter. Noncompliance 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