







### ***Job Creation.***

In evaluating the effects of divestiture or cessation of swaps dealing on job creation, the Director has considered the direct relationship between immediate cessation of derivatives activities and the loss of revenues and jobs.

The near-term cessation or divestiture of SGNY's swaps activities has the potential to result in job losses if SGNY reduces its lending and financial intermediation activities.

A 24-month transition period could mitigate the potential for general market disruptions, including disruptions to credit and capital markets that could weaken job growth and have other negative macroeconomic consequences.

### ***Capital Formation.***

In evaluating the effects of divestiture or cessation of swaps dealing on capital formation at SGNY, the Director has considered, among other things, lending activities, the loss of netting efficiencies, and costs associated with the modification of business practices and compliance procedures.

Negative impacts on lending described above may have a negative effect on capital formation of counterparties, especially in the short term, if counterparties are forced to replace swaps at SGNY with swaps with other counterparties. Loss of netting efficiencies and modifications to business practices and compliance procedures may also negatively affect capital formation and cause a disruption in capital markets. The potential hazard of a disruption in capital markets may be more immediate than in other markets because capital markets may react quickly to operational problems. This would be especially true for a financial institution that encounters any serious operational problems from section 716-related restructuring because of the relationship between derivatives activities and capital markets activities.

A 24-month transition period could mitigate the potential for capital market disruptions. Thus, by granting a sufficient transition period, risks to individual financial institutions and to the banking system as a whole would be decreased. The benefits of mitigating the risk of capital market disruption favor granting a 24-month transition period to SGNY.

### ***Other Factors.***

As permitted by section 716, the Director has also considered other potential effects of requiring immediate conformance with section 716. Compliance with section 716 will require an uninsured branch of a foreign bank, such as SGNY, to (1) determine whether to terminate its swaps activities or transfer them to a third party or an affiliate; (2) identify and capitalize an affiliate, if appropriate, to accept the swaps; and (3) novate existing swaps to the affiliate. Terminating or novating existing swaps will require the parties to negotiate and enter into new or modified swap arrangements, which could change the parties' exposure with respect to the swaps. New agreements or modifications to existing agreements may require the parties to adjust related transactions, including existing hedges. If a branch were required to divest or

cease these swaps activities in a short time period, it may lead to a disorderly and inefficient unwinding that could present operational and risk-management risks for both the branch and its counterparties. These challenges and risks are significantly more complicated by the fact that they would occur simultaneously with many regulatory and structural market changes associated with the implementation of Title VII.

### ***Insured Depositors.***

SGNY's deposits are not insured by the FDIC. Therefore, SGNY's swaps activities do not, and providing SGNY with a reasonable transition period would not, directly expose insured depositors to the risks associated with cessation or divestiture.

### ***The Deposit Insurance Fund (DIF).***

The DIF bears the risks associated with resolving an insured depository institution, including one that has failed because of problems related to its swaps dealing. This risk includes payouts from the DIF to insured depositors of the institution. However, as noted, SGNY's deposits are not insured by the FDIC. Therefore, SGNY's swaps activities do not, and providing SGNY with a reasonable transition period would not, directly result in an exposure to the DIF.

### **Conclusion**

As set out above, the Director has evaluated the impact of divestiture or cessation of SGNY's swaps dealing on mortgage lending, small business lending, job creation, and capital formation versus the potential negative impact on insured depositors and the DIF in determining the appropriate length of the transition period. The Director also has considered the fact that SGNY is required to conduct affected derivatives activities in a safe and sound manner and is subject to prudential supervision and regulation. Overall, the Director has determined that the potential impact of granting a 24-month transition period is less adverse than the potential impact of denying the transition period or providing a significantly shorter transition period. The lesser impact associated with a 24-month transition period results from lowering the probability of operational problems and market disruption that could occur if SGNY does not have a sufficient opportunity to restructure its swaps dealing in an orderly manner.

The 24-month transition period would permit SGNY to better evaluate whether to transfer the swaps activities to a third party or an affiliate(s) and which affiliate(s) is best positioned to accept its swaps business. The 24-month transition period also would permit the creation of a new affiliate(s) and allow for appropriate capital planning for any affiliate that assumes swaps activities. This transition period would also allow SGNY to evaluate its decisions in the context of further development of the regulatory requirements of Title VII.

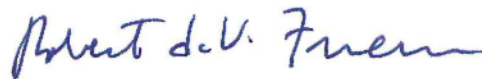
In contrast, no transition period or a significantly shorter transition period could result in disorderly termination or divestiture of swaps activities and considerable disruption to swaps markets and financial markets that could weaken lending markets and result in a similar negative impact on job creation and capital formation.

After considering the written findings set forth above, and after consulting with the CFTC and the SEC, the Director, in consultation with the General Counsel, acting pursuant to delegated authority, has determined to establish a 24-month transition period under section 716(f) for SGNY beginning on July 16, 2013.

This approval is conditioned on the facts and representations set forth in SGNY's correspondence. These representations are deemed to be conditions imposed in writing by the Board in connection with the findings and decision herein and, as such, may be enforced in proceedings under applicable law. Any change in the facts and representations presented could result in a different conclusion and should be reported to Board staff immediately.

If you have any questions concerning this letter, please contact Victoria Szybillo, Counsel, at (202) 475-6325, or Michelle Kidd, Attorney, at (202) 736-5554, both of the Board's Legal Division.

Sincerely yours,

A handwritten signature in blue ink that reads "Robert deV. Frierson". The signature is written in a cursive style with a long, sweeping underline.

Robert deV. Frierson  
Secretary of the Board

cc: Ivan J. Hurwitz, Vice President  
Federal Reserve Bank of New York