



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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 1, 2006

Christina Gattuso, Esq.
Muldoon Murphy & Aguggia LLP
5101 Wisconsin Avenue, NW
Washington, DC 20016

Dear Ms. Gattuso:

This is in response to the request by Legg Mason Trust Company, National Association (“LMT”), Baltimore, Maryland, for an exemption from section 23A of the Federal Reserve Act and the Board’s Regulation W to permit LMT to acquire certain assets and assume certain liabilities from its parent, Legg Mason, Inc. (“LMI”), Baltimore, Maryland, as part of a corporate reorganization.¹ LMI plans to reorganize its asset management business by transferring to LMT all the outstanding shares of Legg Mason Investment Counsel (“LMIC”), Baltimore, Maryland, a wholly owned subsidiary of LMI and an affiliate of LMT for purposes of section 23A and Regulation W.²

Section 23A and Regulation W limit the amount of “covered transactions,” which include loans and purchases of assets, between a bank (and its subsidiaries) 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 member bank and all its affiliates to 20 percent of the bank’s capital stock and surplus. Covered transactions include a bank’s loans to an affiliate, investments in securities issued by an affiliate, purchases of assets from an affiliate, and certain other transactions. In addition, the statute and rule prohibit a bank from purchasing low-quality assets from an affiliate and require that all the bank’s covered transactions be on terms and conditions that are consistent with safe and sound banking practices.

Regulation W provides that a bank’s acquisition of a security issued by a company that was an affiliate of the bank before the acquisition is treated as a purchase of assets by the bank from an affiliate if (i) the company becomes an operating subsidiary of the member bank as a result of the transaction; and (ii) the company has liabilities at the

¹ 12 U.S.C. § 371c and 12 CFR part 223.

² Before LMIC is transferred to LMT, another wholly owned subsidiary of LMI, Legg Mason Focus Capital, Inc., will be merged with and into LMIC.

time of the acquisition.³ LMIC is an affiliate of LMT and will become an operating subsidiary of LMT in the proposed reorganization, and LMIC has liabilities. Accordingly, the acquisition of LMIC by LMT would be treated as an asset purchase subject to the quantitative and qualitative limitations of section 23A and Regulation W. For purposes of Regulation W, the value of the covered transaction would be approximately \$[], which would be LMIC's total liabilities at the time of the reorganization.⁴

To accomplish the reorganization, LMT has requested an exemption from section 23A and Regulation W to permit LMT to acquire all the shares of LMIC. Section 23A specifically authorizes the Board to exempt from the requirements of the statute, at its discretion, transactions or relationships if the Board finds such exemptions to be in the public interest and consistent with the purposes of the statute.⁵ The Board has approved exemptions in similar proposals for one-time transfers that were part of corporate reorganizations and that were structured to ensure the quality of the transferred assets.⁶ As in previous cases reviewed by the Board, the proposed transaction in this case is the result of a one-time corporate reorganization. According to LMT, this exemption would enable LMT to expand the products it can offer to its clients and leverage its resources to provide better products and greater competition in the market.

A majority of LMT's directors have reviewed and approved the proposed restructuring. Moreover, you have represented that LMIC will not have any low-quality assets at the time the transaction is consummated and that LMT will not purchase any low-quality assets as part of this proposal. In addition, LMI has committed, as part of the exemption request, to make quarterly cash contributions to LMT for a two-year period following the reorganization equal to the book value plus any write-downs taken by LMT of any of LMIC's transferred assets that become low-quality assets during the quarter.

In light of these considerations and all the facts presented, the transaction appears to be consistent with safe and sound banking practices and on terms that would ensure the quality of the assets transferred. Accordingly, the transaction appears to be consistent with the purposes of section 23A, and the Director of the Division of Banking

³ 12 CFR 223.31(a).

⁴ See 12 CFR 223.31(b).

⁵ 12 U.S.C. § 371c(f)(2).

⁶ See e.g., Board letters dated November 22, 2005, to Robin Maxwell, Esq. (Royal Bank of Scotland Group plc); April 1, 2005, to Karen Grandstrand, Esq. (Klein Financial Inc.); and May 14, 2004, to James E. Scott, Esq. (Citigroup Inc).

Supervision and Regulation, pursuant to authority delegated by the Board, and with the concurrence of the General Counsel, hereby grants the requested exemption.

This determination is specifically conditioned on compliance by LMI and LMT with all the commitments and representations made in connection with the request. These commitments and representations are deemed to be conditions imposed in writing in connection with this action and, as such, may be enforced in proceedings under applicable law. This determination is based on the specific circumstances surrounding the proposed transaction and may be revoked in the event of any material change in those circumstances or any failure by LMI or its subsidiaries to observe their commitments. Granting this exemption does not constitute a determination on the permissibility of any other transactions that are subject to section 23A or concerning any other affiliate of LMT.

Very truly yours,

/s/ Robert deV. Frierson

Robert deV. Frierson
Deputy Secretary of the Board

cc: Federal Deposit Insurance Corporation
Federal Reserve Bank of Richmond
Office of the Comptroller of the Currency