

## FEDERAL RESERVE SYSTEM

### Order Delegating Authority to Approve Extensions of Time to Divest an Ownership Interest in Certain Covered Funds under the Bank Holding Company Act

Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act added a new section 13 to the Bank Holding Company Act of 1956, which generally prohibits banking entities from acquiring or retaining an ownership interest in, sponsoring, or having certain relationships with a hedge fund or private equity fund (together, a “covered fund”).<sup>1</sup> These prohibitions are subject to a number of statutory exemptions, restrictions, and definitions.

Under section 13, a banking entity may make and retain an investment in a covered fund that the entity organizes and offers (i) to establish the fund with sufficient initial equity for investment to permit the fund to attract unaffiliated investors or (ii) to make a de minimis investment.<sup>2</sup> Section 13 provides that an investment by a banking entity in a covered fund shall be reduced to an amount that is not more than 3 percent of the total ownership interests of the fund not later than one year after the date of establishment of the fund.<sup>3</sup> Upon an application by a banking entity, the Board may extend for two additional years the period of time during which a banking entity must reduce its ownership interest in a covered fund to no more than 3 percent, if the Board finds that an extension would be consistent with safety and soundness and in the public interest.<sup>4</sup>

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<sup>1</sup> See 12 U.S.C. § 1851. A banking entity is defined by statute as any insured depository institution, any company affiliated with an insured depository institution, or any foreign bank that has a branch or agency in the United States, with certain limited exceptions.

<sup>2</sup> 12 U.S.C. § 1851(d)(4)(A).

<sup>3</sup> 12 U.S.C. § 1851(d)(4)(B)(ii)(I).

<sup>4</sup> 12 U.S.C. § 1851(d)(4)(C).

Pursuant to section 11(k) of the Federal Reserve Act, the Board may delegate by published order or rule any of its functions, other than those relating to rulemaking or pertaining principally to monetary and credit policies, to Board members and employees, Reserve Banks, or administrative law judges.<sup>5</sup>

The Board hereby delegates to the Federal Reserve Banks, in consultation with Board staff, the authority to approve (but not deny) an application by a banking entity for an extension of the period of time during which it must reduce its ownership interest in a covered fund to no more than 3 percent, if the following criteria are met:

- No significant issues have been identified regarding the banking entity's compliance program;
- The banking entity has represented that all of the requirements under section 13 and its implementing regulations for organizing and offering a covered fund have been met;
- The banking entity provides a plan for reducing the permitted investment in a covered fund through redemption, sale, dilution, or other methods by the end of the extension period; and
- The primary federal agency responsible for enforcing compliance with section 13 by the banking entity that invests in or sponsors the covered fund (if other than the Federal Reserve) does not object to the extension.

By order of the Board of Governors,<sup>6</sup> effective July 24, 2017.

*Ann E. Misback (signed)*

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Ann E. Misback  
Secretary of the Board

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<sup>5</sup> 12 U.S.C. § 248(k)

<sup>6</sup> Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Powell and Brainard.