



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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 29, 2021

Mr. Blake Paulson
Acting Comptroller
Office of the Comptroller of the Currency
400 Seventh Street, SW
Washington, D.C. 20219

Dear Acting Comptroller Paulson:

This letter concerns the request by Vanguard National Trust Company (“Vanguard Trust”), Malvern, Pennsylvania, a non-depository, limited-purpose trust company, for an exemption from certain requirements of section 23A of the Federal Reserve Act¹ to invest 100 percent of its capital stock and surplus in the securities of its affiliate, the Vanguard Treasury Money Market Fund (the “Fund”).² Vanguard Trust is not insured by the Federal Deposit Insurance Corporation (“FDIC”).

Section 23A limits the amount of covered transactions between a bank and any single affiliate to 10 percent of the bank’s capital stock and surplus and limits the amount of covered transactions between a bank and all of its affiliates to 20 percent of the bank’s capital stock and surplus.³ Section 23A defines a covered transaction to include, among other things, “a purchase of or an investment in securities issued by the affiliate.”⁴

¹ 12 U.S.C. § 371c.

² Vanguard Trust also accumulates a small number of securities of the Fund through a fee settlement arrangement facilitated by Vanguard Trust’s affiliated broker-dealer, Vanguard Marketing Corporation (“VMC”), Malvern, Pennsylvania. This arrangement can result in an overnight extension of credit from Vanguard Trust to VMC. Accordingly, Vanguard Trust also seeks an exemption from the collateral requirements of section 23A to permit it to continue to collect client fees according to its current arrangement. 12 U.S.C. § 371c(c); 12 CFR 223.14.

³ 12 U.S.C. § 371c(a)(1).

⁴ 12 U.S.C. § 371c(b)(7)(B). Section 23A also defines a covered transaction to include an “extension of credit” to an affiliate. 12 U.S.C. § 371c(b)(7)(A). The Board has indicated that an extension of credit related to clearing and settlement is subject to section 23A unless it qualifies for an exemption, such as the exemption in the Board’s

Section 23A defines affiliate to include “any company that controls the member bank and any other company that is controlled by the company that controls the member bank” and “any investment fund with respect to which a member bank or affiliate thereof is an investment adviser.”⁵

Vanguard Trust is a wholly owned subsidiary of The Vanguard Group, Inc. (“Vanguard Group”), Malvern, Pennsylvania. Vanguard Group serves as the investment adviser for the Fund. Accordingly, Vanguard Trust and the Fund are affiliates for purposes of section 23A.⁶

Vanguard Trust would invest approximately \$70 million, or 100 percent of its capital stock and surplus, in shares of the Fund. This investment exceeds the quantitative limits in section 23A for covered transactions with a single affiliate and with all affiliates. Vanguard Trust seeks an exemption from the quantitative limits of section 23A to continue to invest 100 percent of its capital stock and surplus in shares of the Fund.

Because Vanguard Trust is a national trust bank, the Office of the Comptroller of the Currency (“OCC”) may, by order, exempt the proposed investment from the requirements of section 23A if the Board and OCC jointly find the exemption to be (i) in the public interest and (ii) consistent with the purposes of section 23A.⁷ In addition, the FDIC must not object to the exemption in writing based on a determination that the exemption presents an unacceptable risk to the Deposit Insurance Fund within 60 days of being notified of the OCC and Board’s joint findings.⁸

Vanguard Trust asserts that the proposed transaction is in the public interest because investment of its capital stock and surplus in the shares of the Fund would reduce Vanguard Trust’s operational costs, resulting in lower fees and better service for its clients. Vanguard Trust notes that the Fund provides a transparent and low-risk investment option because it invests exclusively in securities fully guaranteed as to principal and interest by the U.S. government. Vanguard Trust further represents that its current arrangement permits all fee processing to be done within the Vanguard system,

Regulation W for intraday extensions of credit. See 67 Fed. Reg. 76,560, 76,596 (Dec. 12, 2002); 12 CFR 223.42(l).

⁵ 12 U.S.C. § 371c(b)(1)(A), (D).

⁶ VMC also is an affiliate of Vanguard Trust because both are controlled by Vanguard Group.

⁷ 12 U.S.C. § 371c(f)(2)(B)(i)(I).

⁸ 12 U.S.C. § 371c(f)(2)(B)(i)(II).

reducing the amount Vanguard Trust has to spend on these services and streamlining the collection of its fees and the payment of its expenses.⁹

The proposed transaction does not appear to be inconsistent with the purposes of section 23A. The Board previously has stated that the dual purposes of section 23A are to protect against a depository institution suffering losses in transactions with affiliates and to limit the ability of a depository institution to transfer to its affiliates the subsidy arising from the institution's access to the federal safety net.¹⁰ The proposed transaction is likely to pose only limited risk to Vanguard Trust because the Fund invests exclusively in securities fully guaranteed as to principal and interest by the U.S. government.¹¹ Vanguard Trust also is not insured by the FDIC, so the investment does not appear to transfer to the Fund or Vanguard Trust's other affiliates the subsidy arising from the Deposit Insurance Fund. In addition, the Fund benefits from a large and diversified investor base. As of June 30, 2020, Vanguard Trust's investment represents less than 1 percent of the Fund's total net assets. Accordingly, it does not appear that the proposed transaction is designed to provide material support to the Fund.

In light of these considerations and all the facts presented, the Board finds that the proposed exemptions are in the public interest and consistent with the purposes of section 23A. Board staff has consulted with FDIC staff, which has not indicated any objection to these findings on the basis of a determination that the requested exemption would present an unacceptable risk to the Deposit Insurance Fund.

This action is specifically conditioned on compliance by Vanguard Trust with all the commitments it has made to the Board in connection with this exemption request. The commitments constitute 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 facts and circumstances described in Vanguard

⁹ Vanguard Trust also represents that the fee collection and cost settlement services provided by its affiliates are on terms that are consistent with safe and sound banking practices and consistent with section 23B of the Federal Reserve Act. 12 U.S.C. § 371c-1. Section 23B generally requires any transactions between a depository institution and an affiliate to be on terms and under circumstances that are substantially the same as, or at least as favorable to the depository institution as, comparable transactions with unaffiliated companies. See 12 U.S.C. § 371c-1(a)(1). Vanguard Trust is independently required to comply with section 23B and does not seek an exemption from the requirements of section 23B.

¹⁰ 67 Fed. Reg. 76,560 (Dec. 12, 2002).

¹¹ The Fund currently invests only in U.S. Treasury securities; however, it may invest up to 20 percent of its assets in securities issued by government agencies that are fully guaranteed as to principal and interest by the U.S. government.

Trust's correspondence and this letter. Any change in the facts or circumstances may result in a different conclusion or revocation of the findings in this letter. This action also is specifically conditioned on receipt by Vanguard Trust of all regulatory approvals required by the proposal and compliance with any conditions imposed in connection with such approvals.

Sincerely yours,

(Signed) Ann E. Misback

Ann E. Misback
Secretary of the Board

cc: Chairman Jelena McWilliams
Federal Deposit Insurance Corporation
Ms. Rebecca Laird