

DATE: January 17, 2003

SUBJECT: Adoption of Regulation W Implementing Sections 23A and 23B of the Federal Reserve Act (SR Letter 03-2)

HIGHLIGHTS: On December 12, 2002, Regulation W, the rule that comprehensively implements sections 23A and 23B of the Federal Reserve Act, was published in the Federal Register. The rule is effective April 1, 2003.

Sections 23A and 23B and Regulation W limit the risks to a bank from transactions between the bank and its affiliates and limit the ability of a bank to transfer to its affiliates the subsidy arising from the bank's access to the federal safety net (i.e., lower cost insured deposits, the payment system, and the discount window). The statute and rule accomplish these purposes by imposing quantitative and qualitative limits on the ability of a bank to extend credit to, or engage in certain other transactions with, an affiliate. Transactions between a bank and a nonaffiliate that benefit an affiliate of the bank are covered by the statute and regulation as well, through the well-established "attribution" principle. However, certain transactions that generally do not expose a bank to undue risk or abuse the safety net are exempted from coverage under Regulation W.

Additional information, including a summary of significant issues and a comprehensive review of Regulation W, is included in the SR letter.

DOCUMENT LOCATION: The January 9, 2003 SR letter is available under the Board of Governors' web site:

<http://www.federalreserve.gov/boarddocs/SRLETTERS/2003/sr0302.htm>

FURTHER INFORMATION: Michael W. DeClue, Assistant Vice President
314-444-8759 (or 1-800-333-0810, ext. 44-8759)
Banking Supervision and Regulation Department