

FEDERAL RESERVE BANK OF SAN FRANCISCO  
101 MARKET STREET, SAN FRANCISCO, CALIFORNIA 94105

January 16, 2003

**BANKING SUPERVISION AND REGULATION:  
IMPLEMENTING REGULATION W**

To State Member Banks, Bank  
Holding Companies, U.S. Branches  
and Agencies of Foreign Banks,  
and Others Concerned,  
in the Twelfth Federal Reserve District

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

SR 03-2 discusses sections 23A and 23B and Regulation W, which 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 (such as 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.

The Gramm-Leach-Bliley Act (GLBA) increased the range of affiliations permitted to banking organizations. A key premise of GLBA was that sections 23A and 23B would limit the risk to depository institutions from these broader affiliations and eliminate the need for extensive prior review by the bank regulatory agencies. Given the enhanced role of sections 23A and 23B in risk management after GLBA, it is essential that examiners and other supervisory staff review intercompany transactions for compliance with the statutes and Regulation W. Reviews for compliance with the affiliate transaction rules should be frequent and rigorous, and any violations or potential violations should be resolved quickly.

The rule is effective April 1, 2003. Regulation W was published in the *Federal Register* on December 12, 2002. Please see our letter dated December 18, 2002 on the final regulation W and a request for comment (Docket R-1135). The final rule for Regulation W (Docket R-1103) is available on the Board's website at <http://www.federalreserve.gov/boarddocs/press/bcreg/2002/20021127/attachment1.pdf>.

**Additional Information**

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's Internet site, at <http://www.frbsf.org/banking/letters>. Paper copies of the Board's notice (SR 03-2, Docket 1103, and a comprehensive review of Regulation W) are available from our Corporate Services Department. To request copies to be sent by mail, please call (415) 974-2060.

For additional information about the implementation of Regulation W, please contact our Legal Department at (415) 974-2210.

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Attachments:

[SR 03-2](#)

[Appendix—"Comprehensive Review of Regulation W"](#)