

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

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To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, Savings and Loan Holding Companies,
and Foreign Banking Offices
in the Twelfth Federal Reserve District

Federal Reserve Board Approves Final Rule Establishing Requirements for Determining when a Company is "Predominantly Engaged in Financial Activities"

On Wednesday, April 3, 2013, the Federal Reserve Board announced approval of a final rule that establishes the requirements for determining when a company is "predominantly engaged in financial activities." The requirements will be used by the Financial Stability Oversight Council (FSOC) when it considers the potential designation of a nonbank financial company for consolidated supervision by the Federal Reserve. The final rule will become effective on May 6, 2013.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, a nonbank financial company can be designated by the FSOC for supervision by the Federal Reserve only if it is "predominantly engaged in financial activities." A company is considered to be predominantly engaged in financial activities if 85 percent or more of the company's revenues or assets are related to activities that are defined as financial in nature under the Bank Holding Company Act. Additionally, the FSOC may issue recommendations for primary financial regulatory agencies to apply new or heightened standards to a financial activity or practice conducted by companies that are predominantly engaged in financial activities.

The final rule largely adopts the approach in the proposed rule, with a few exceptions. For example, the final rule states that engaging in physically settled derivatives transactions generally will not be considered a financial activity, a change from the proposal.

The final rule also defines the terms "significant nonbank financial company" and "significant bank holding company." Among the factors the FSOC must consider when determining whether to designate a nonbank financial company for consolidated supervision by the Federal Reserve is the extent and nature of the company's transactions and relationships with other significant nonbank financial companies and significant bank holding companies. If designated, those nonbank financial companies will be required to submit reports to the Federal Reserve, the FSOC, and the Federal Deposit Insurance Corporation on the company's credit exposure to other significant nonbank financial companies and significant bank holding companies as well as the credit exposure of such significant entities to the company. Consistent with the proposal, a firm will be considered significant if it has \$50 billion or more in total consolidated assets or has been designated by the FSOC as systemically important.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information, please contact:

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Attachment:

[Definitions of "Predominantly Engaged In Financial Activities" and "Significant" Nonbank Financial Company and Bank Holding Company](#)