

**SCHWARTZ & BALLEN LLP**  
1990 M STREET, N.W. • SUITE 500  
WASHINGTON, DC 20036-3465  
[WWW.SCHWARTZANDBALLEN.COM](http://WWW.SCHWARTZANDBALLEN.COM)

**TELEPHONE**  
(202) 776-0700

**FACSIMILE**  
(202) 776-0720

**MEMORANDUM**

April 3, 2013

To Our Clients and Friends

Re: Federal Reserve Rule on Systemically Important Financial Institutions

The Federal Reserve Board announced its final rule establishing requirements for when a company is regarded as “predominantly engaged in financial activities” for purposes of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The definition will be used by the Financial Stability Oversight Council (FSOC) in connection with determining whether a nonbank financial company will be designated as systemically important and supervised by the Federal Reserve. The rule is an important step towards FSOC’s designation of certain nonbank financial companies as systemically important. The final rule is effective May 6, 2013.

Under the Dodd-Frank Act, FSOC can designate a nonbank financial company for supervision by the Federal Reserve only if it is “predominantly engaged in financial activities.” A company is predominantly engaged in financial activities if at least 85 percent of the company’s revenues or assets are related to activities that are defined as financial in nature under the Bank Holding Company Act. In addition, primary financial regulatory agencies may apply new or heightened standards to a financial activity or practice conducted by companies that are predominantly engaged in financial activities.

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.” Accordingly, the rule also defines the terms “significant nonbank financial company” and “significant bank holding company.” Designated 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

**SCHWARTZ & BALLELLP**

significant nonbank financial companies and significant bank holding companies as well as the credit exposure of such significant entities to the company.

The Board's rule can be found at our website at  
<http://www.schwartzandballen.com/news.html>

If you have any questions, please call Gilbert Schwartz, Robert Ballen, Tom Fox or Heidi Wicker, at (202) 776-0700.