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MEMORANDUM

February 4, 2020

To Our Clients and Friends

Re: Federal Reserve Board Revises Control Standards

The Federal Reserve Board has revised its framework for determining when a company has control over another company for purposes of the Bank Holding Company Act (BHC Act) and the Home Owners' Loan Act (HOLA). The action follows the Board's April 2019 request for public comment on its proposal to modify the standards it applies for determining control under the BHC Act and HOLA.

Under the framework, the determination of whether a company controls another company would principally be based on such factors as:

- voting interest in another company
- total equity ownership in another company
- director representation at the other company
- contractual agreements, and
- business relationships with the other company

The Board's framework differs from the proposal in several respects. For example, the presumption of control based on the level of business relationships between an investing company and an investee company will take into account the significance of the business relationships only from the perspective of the investee company. The proposal took into account the significance of business relationships from both the perspective of the investing company and the investee company. Additionally, the final rule provides that an investor with any voting interest can avoid control under the BHC Act by keeping its total equity percentage below one-third (absent other indicia of control). Under the proposal, an investor with a voting interest of 15 percent or more could avoid control only by keeping its total equity percentage in the other company below 25 percent.

A copy of the Board's announcement is available on our website at <http://schwartzandballen.com/news.html>.

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