Regulation W

August 14, 2020

Common intercompany transactions that may raise concerns for banks and bank financial holding companies under Regulation W.

Regulation W

- **Access Regulation W**

Extensions of Credit

Regulatory concerns center on the quantitative limits and collateral restrictions on extensions of credit by a subsidiary bank to its affiliates. Such restrictions are designed to protect subsidiary banks from potential jeopardy involved in being used as a source of financing by affiliates and to ensure the collectibility of extensions of credit. Transaction accounts of the parent or nonbank subsidiaries at subsidiary banks present the potential for overdrafts, which are regarded as unsecured extensions of credit to an affiliate by the subsidiary bank according to Section 23A. Overdrafts can have an adverse effect on the bank's financial condition. The rate of interest paid and the timing of interest payments made by the subsidiary bank on savings accounts and certificates of deposit of the parent company or nonbank subsidiaries are also of concern if not on terms comparable with other customers.

Payment of Expenses

A subsidiary bank should be adequately compensated for its services or for the use of its facilities and personnel by other entities in the holding company organization. Furthermore, a subsidiary bank should not pay expenses on behalf of other holding company entities for which it does not receive benefit. Examples of such payments would include accounting expenses, legal and formation expenses.

Management Fees Paid by Subsidiaries

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Management or service fees represent cash outflows from bank subsidiaries. Such fees may be paid to the parent company, the nonbank subsidiaries or, in some cases, to other bank affiliates. Regulatory concern focuses on whether such fees are reasonable in relation to the services rendered and on the financial impact on the bank subsidiary.

Tax Practices and Transactions

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A holding company's determination of the allocation of taxes among its subsidiary companies involves questions of both the magnitude and timing of the cash flow effects. Unreasonable or untimely tax transfers by the bank can have an adverse effect on the financial condition of the banking subsidiary and create violations of Section 23A.

Purchases or Swaps of Assets

Asset purchases or swaps between affiliates create the potential for abuse of subsidiary banks. Regulatory concern focuses on the fairness of such asset transactions and their financial impact and timing. Fairness and financial considerations include the value, quality and collectibility of such assets and liquidity effects. Asset exchanges may represent a mechanism to avoid regulations designed to protect subsidiary banks from becoming burdened with nonearning or low quality assets. Improper timing or certain structuring of asset transactions can also cause them to be regarded as extensions of credit to affiliates with the potential for violations of applicable regulations and statutes.

Compensating Balances

A subsidiary bank may, to its own detriment, be required to maintain excess balances at a correspondent bank, which lends to the holding company, its subsidiaries or its ownership. The subsidiary bank may be foregoing earnings on such excess funds, which may adversely affect its financial condition.