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United States General Accounting Office
Washington, DC 20548

B-291951

February 24, 2003

The Honorable Richard C. Shelby
Chairman
The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Michael G. Oxley
Chairman
The Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives

Subject: *Federal Reserve System: Transactions Between Member Banks and Their Affiliates*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Federal Reserve System (Board), entitled "Transactions Between Member Banks and Their Affiliates" (Regulation W; Docket No. R-1103). The rule was received by the Senate on December 2, 2002, and by the House of Representatives on December 4, 2002. However, due to a delay in the mail, our Office did not receive the rule until February 7, 2003. It was published in the Federal Register as a final rule on December 12, 2002. 67 Fed. Reg. 76560.

The final rule (Regulation W) combines statutory restrictions on transactions between a member bank and its affiliates with numerous Board interpretations and exemptions in an effort to simplify compliance with sections 23A and 23B of the Federal Reserve Act.

Enclosed is our assessment of the Board's compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review indicates that the Board complied with the applicable requirements.

If you have any questions about this report, please contact James W. Vickers, Assistant General Counsel, at (202) 512-8210. The official responsible for GAO evaluation work relating to the subject matter of the rule is Thomas McCool,

Managing Director, Financial Markets and Community Investment. Mr. McCool can be reached at (202) 512-8678.

signed

Kathleen E. Wannisky
Managing Associate General Counsel

Enclosure

cc: Winthrop P. Hambley
Deputy Congressional Liaison
Federal Reserve Board

ANALYSIS UNDER 5 U.S.C. § 801(a)(1)(B)(i)-(iv) OF A MAJOR RULE
ISSUED BY THE
FEDERAL RESERVE SYSTEM
ENTITLED
"TRANSACTIONS BETWEEN MEMBER BANKS AND THEIR AFFILIATES"
(REGULATION W; DOCKET NO. R-1103)

(i) Cost-benefit analysis

The Board was not required to perform a cost-benefit analysis in connection with the issuance of the final rule.

(ii) Agency actions relevant to the Regulatory Flexibility Act, 5 U.S.C. §§ 603-605, 607, and 609

The Board prepared an Initial Regulatory Flexibility Analysis and a Final Regulatory Flexibility Analysis in connection with the proposed and final rules, respectively. The analyses comply with the informational requirements of the Act. The Board concludes that the final rule will not result in additional significant burdens. Because of the increased exemptions and having the Board's interpretations in a single, comprehensive, public document, the Board also concludes that it may actually be less burdensome than the existing law.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

The rule, promulgated by an independent regulatory agency, is not subject to title II of the Act.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

The final rule was issued using the notice and comment procedures found at 5 U.S.C. 553. On May 11, 2001, the Board published in the Federal Register a Notice of Proposed Rulemaking. 66 Fed. Reg. 24186. In response the Board received 120 comments, which are discussed in the preamble to the final rule.

Paperwork Reduction Act, 44 U.S.C. §§ 3501-3520

The final rule contains information collections that are subject to review by the Office of Management and Budget (OMB) under the Paperwork Reduction Act. The Board of Governors of the Federal Reserve System has approved the collections

under its delegation of authority from OMB (5 C.F.R. 1320 Appendix A.1) but also solicits comments regarding the collections, including suggestions for reducing the burden.

Statutory authorization for the rule

The final rule is promulgated under the authority contained in section 23A(f) and 23(B)(e) of the Federal Reserve Act (12 U.S.C. 371c(f) and 371c-1(e)).

Executive Order No. 12866

As an independent regulatory agency, rules promulgated by the Board of Governors of the Federal Reserve System are not subject to review under the order.