

**MEMORANDUM OF UNDERSTANDING  
BETWEEN  
THE U.S. SECURITIES AND EXCHANGE COMMISSION  
AND  
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
REGARDING  
COORDINATION AND INFORMATION SHARING IN AREAS OF COMMON  
REGULATORY AND SUPERVISORY INTEREST**

The mission of the Commission is to protect investors, maintain fair, orderly, and efficient securities markets, and facilitate capital formation. The mission of the Board is to, among other things, conduct monetary policy, protect the safety and soundness of banking organizations, and maintain the stability of the financial system.

The MOU between the Board and Commission reflects the Board's and the Commission's intent to collaborate, cooperate and share information in areas of common regulatory and supervisory interest to facilitate their oversight of financial services firms.

The Board has regulatory and supervisory responsibilities over banking companies, including state member banks and their subsidiaries, bank holding companies and their subsidiaries, financial holding companies and their subsidiaries, foreign banking organizations with U.S. banking operations, Edge Corporations, and Agreement Corporations. The Commission has regulatory and supervisory responsibility over securities companies, including securities brokers, securities dealers, clearing agencies, transfer agents, certain investment advisers, and investment companies.

The Board and the Commission recognize that coordinating supervision of, and sharing information concerning, certain banking companies and securities companies is important in maintaining effective oversight, promoting compliance with the banking and securities laws, fostering the stability of financial markets, and facilitating the effective execution of monetary policy by the Federal Reserve. The Board and Commission further recognize the need for cooperation and coordination to effectively carry out their respective statutory responsibilities and maintain the highest level of oversight quality, while minimizing duplicative efforts. Accordingly, the Board and Commission are entering into the MOU to establish a framework for collaborating, coordinating and sharing information in areas of common regulatory and supervisory interest.

**ARTICLE I: DEFINITIONS**

For purposes of the MOU:

**“Agreement Corporation”** shall mean a corporation that is chartered by a state to engage in international banking operations and that has an agreement or undertaking with the Board under section 25 of the Federal Reserve Act.

**“Alternative Net Capital Holding Company” or “ANCHC”** shall mean a Bank Holding Company supervised by the Board that is affiliated with a broker or dealer approved by the Commission to calculate net capital under the alternative method in Appendix E of the Net Capital Rule.

**“Appendix E”** shall mean Rule 15c3-1e under the Exchange Act.

**“Board”** shall mean the Board of Governors of the Federal Reserve System.

**“Bank Holding Company”** shall mean a “Bank Holding Company” as defined in 12 U.S.C. 1841(a) and a foreign bank or company that is treated as a bank holding company pursuant to 12 U.S.C. 3106(a).

**“Bank Secrecy Act”** shall mean the Currency and Foreign Transactions Reporting Act of 1970, commonly known as the Bank Secrecy Act of 1970.

**“Commission”** shall mean the U.S. Securities and Exchange Commission.

**“Commission Supervised Entity”** shall mean (1) a broker, dealer, investment adviser or investment company registered with the Commission or (2) a CSE.

**“Consolidated Supervised Entity” or “CSE”** shall mean a holding company (other than an ANCHC) supervised by the Commission that is affiliated with a broker or dealer that calculates net capital under the alternative method in Appendix E of the Net Capital Rule.

**“Edge Corporation”** shall mean a corporation chartered by the Board under section 25A of the Federal Reserve Act to engage in international banking operations.

**“Exchange Act”** shall mean the Securities Exchange Act of 1934.

**“Federal Reserve”** shall mean the Board and the Federal Reserve Banks, except that when used with respect to CSEs and Primary Dealers the term shall mean the Board and the Federal Reserve Bank of New York, and when used with respect to a particular Bank Holding Company or its affiliates or a state member bank, the term shall mean the Board and the appropriate Federal Reserve Bank that has primary responsibility for supervising the Bank Holding Company or state member bank.

**“MOU”** shall mean this Memorandum of Understanding.

**“Net Capital Rule”** shall mean Rule 15c3-1 under the Exchange Act.

**“Primary Dealer”** shall mean a securities dealer or government securities dealer that is designated as a primary dealer by the Federal Reserve Bank of New York from time to time.

**“Primary Dealer Bank Holding Company”** shall mean a Bank Holding Company (other than an ANCHC) that controls a Primary Dealer.

**“Primary Dealer Holding Company”** shall mean a company (other than a CSE or Bank Holding Company) that controls a Primary Dealer.

**“Regulation R”** shall mean the joint rules of the Commission and the Board implementing the bank broker provisions of the Gramm-Leach-Bliley Act of 1999.

**“RFPA”** shall mean the Right to Financial Privacy Act of 1978.

## **ARTICLE II: GENERAL PROVISIONS**

1. The MOU is a statement of intent to collaborate, cooperate, and share information in connection with areas of common regulatory and supervisory interest in a manner consistent with, and permitted by, the laws and requirements that govern the Commission and the Federal Reserve. It is anticipated that cooperation will include sharing of information, coordination of examinations and visitations, consultations on supervisory expectations and other matters of common regulatory and supervisory interest, periodic meetings, written requests as needed, and other practical arrangements as may be developed by the Commission and the Federal Reserve. The Commission and the Federal Reserve each acknowledges the other’s need for and regulatory and supervisory interest in the information to be shared.

2. The MOU does not create legally binding obligations on the Commission or Federal Reserve and does not create any right enforceable against the Commission or Federal Reserve or any of their officers or employees or any other person. The MOU also does not confer upon any third-party the right or ability directly or indirectly to obtain, suppress, or exclude any information, or to challenge the execution of a request under the MOU.

3. The MOU is intended to complement, but does not alter the terms and conditions of, existing bilateral or multilateral arrangements concerning cooperation in supervisory, enforcement or other matters between the Commission and the Federal Reserve. In addition, the Commission and Federal Reserve encourage their respective staffs to maintain ongoing, ad hoc, communications to ensure coordination, as appropriate, of their respective day-to-day operations.

4. Nothing in the MOU modifies in any way the ability and responsibility of the Commission and the Board to enforce their respective statutes and regulations.

5. Nothing in this MOU shall be deemed to obligate the Commission or Federal Reserve to create or maintain any information.

6. The Commission and the Board intend periodically to review the functioning and effectiveness of the cooperation and information sharing arrangements with a view to expanding or altering the scope or operation of the MOU should that be judged to further the intent of the parties.

**ARTICLE III: PROCEDURES FOR SHARING INFORMATION IN AREAS OF COMMON REGULATORY AND SUPERVISORY INTEREST GENERALLY**

7. The Commission and Federal Reserve agree to collaborate, cooperate and share information in areas of common regulatory and supervisory interest.

8. To the extent practicable and as appropriate in the particular circumstances, the Commission and Federal Reserve each will endeavor to inform the other, in advance where feasible and otherwise as soon as practicable, of issues that may impact the regulatory or supervisory interests of the other party.

**A. Coordination Regarding Consolidated Supervised Entities and Alternative Net Capital Holding Companies**

9. The Commission is the supervisor of CSEs. The Board is the supervisor of ANCHCs.

10. The supervision and financial and operational condition of the CSEs and ANCHCs is important to both the Commission and the Federal Reserve. The Commission and the Federal Reserve will endeavor to meet at least quarterly each year to identify, discuss and share information regarding regulatory and supervisory issues related to the CSEs and ANCHCs, including information regarding the financial condition, risk management systems, internal controls, and capital, liquidity and funding resources of the CSEs and ANCHCs, and regarding other regulatory and supervisory issues of mutual interest.

11. As the primary supervisor of CSEs, the Commission will provide the Federal Reserve, on an ongoing basis to the extent requested—

a. Information and analysis regarding the financial condition, risk management systems, internal controls and capital, liquidity and funding resources of CSEs; and

b. Information regarding the financial markets, and the Commission's assessment of the conditions in such markets, that may materially affect the operations or financial condition of the CSEs and ANCHCs.

12. The Federal Reserve will provide the Commission, on an ongoing basis to the extent requested—

a. Information and analysis regarding the financial condition, risk management systems, internal controls and capital, liquidity and funding resources of CSEs that it develops in the course of its assessment of the CSEs, if any; and

b. Information regarding the financial markets, including in particular securities financing markets, and the Federal Reserve's assessment of the conditions in such

markets, that may materially affect the operations or financial condition of the CSEs and ANCHCs.

13. As the primary supervisor of ANCHCs, the Federal Reserve will provide the Commission, on an ongoing basis to the extent requested, information and analysis about the financial condition, risk management systems, internal controls and capital, liquidity and funding resources of the ANCHCs that affect the company's broker or dealer subsidiaries or the compliance by such subsidiaries with the conditions of eligibility to compute net capital under the alternative method in Appendix E of the Net Capital Rule.

**B. Coordination Regarding Primary Dealers and Their Holding Companies**

14. The Commission will provide the Federal Reserve, on an ongoing basis to the extent requested, information and analysis regarding the financial condition, risk management systems, internal controls, and capital, liquidity and funding resources of Primary Dealers and Primary Dealer Holding Companies.

15. The Federal Reserve will provide the Commission, on an ongoing basis to the extent requested, information and analysis regarding the financial condition, risk management systems, internal controls, and capital, liquidity and funding resources of any Primary Dealer Bank Holding Company that affects the Primary Dealer.

16. Discussions to Implement the Sharing of Supervisory Information

The staffs of the Commission and the Federal Reserve will periodically confer to discuss and specify details for purposes of implementing this Article III, including matters such as the specific reports or categories of persons that will be the subject of information sharing, the frequency with which each party will provide information, and the particular person within each party to receive information.

**C. Coordination Regarding Capital, Liquidity and Funding**

17. The Commission and Federal Reserve will collaborate and cooperate with each other in—

a. Obtaining (including through visitations, reports and other means), analyzing and evaluating information regarding the capital, liquidity and funding position and resources, and associated risk management systems and controls, of CSEs and Primary Dealers;

b. Setting supervisory and regulatory expectations, guidelines or rules concerning the capital, liquidity and funding position and resources, and associated risk management systems and controls, of CSEs and Primary Dealers, and such expectations, guidelines or rules of application generally to broker-dealers when the principal parties affected are Primary Dealers; and

c. Communicating with CSEs and Primary Dealers regarding, and monitoring their compliance with, the expectations, guidelines or rules to which paragraph 17.b refers

—provided that nothing in this paragraph or MOU shall be deemed to diminish or impair in any way the independence of either the Commission or Federal Reserve in its rulemaking, supervisory, regulatory, examination, or enforcement functions.

#### **D. The Depository Trust Company and Transfer Agents**

##### 18. The Depository Trust Company (“DTC”)

a. DTC is registered with the Commission pursuant to Section 17A of the Exchange Act and the Board is an “appropriate regulatory agency” (as defined in Section 3(a)(34) under the Exchange Act) for DTC, which is a state member bank.

b. The National Securities Clearing Corporation (“NSCC”) and the Fixed Income Clearing Corporation (“FICC”) are affiliates of DTC and also are registered with the Commission pursuant to section 17A of the Exchange Act.

c. Information concerning the supervision, operations, financial condition, risk management systems and internal controls of DTC, NSCC and FICC is important to both the Commission and the Federal Reserve.

d. The Commission and Federal Reserve will continue to collaborate, coordinate and share non-public information relating to DTC, NSCC and FICC. In addition, to facilitate this information sharing process, the Commission and Federal Reserve will continue to exchange and may use non-public, examination-related information pursuant to the terms and conditions set forth in access letters between Commission and Board staff dated November 13, 2003, June 10, 2004, and July 13, 2004, including staff examination-related reports and data pursuant to Section 17(c)(3) of the Exchange Act.

##### 19. Transfer Agents

a. The Board is the “appropriate regulatory agency” for certain transfer agents required to be registered pursuant to Section 17A(c) of the Exchange Act.

b. The Commission also has a supervisory interest in such transfer agents.

c. To effectuate Sections 17(b)(1)(A), 17(c)(2), and 17(c)(3) of the Exchange Act, the Commission and Federal Reserve will continue to notify and consult each other with respect to examinations and proceedings related to the transfer agent activities of such transfer agents and continue to exchange and use non-public, staff examination reports and other relevant examination data and materials.

## **E. Anti-Money Laundering Rules**

20. Both the Commission and Federal Reserve supervise entities that are subject to the Bank Secrecy Act and related rules and to the sanctions requirements administered by the Office of Foreign Assets Control (“OFAC”).

21. If the Commission or Federal Reserve identifies a significant violation or deficiency relating to compliance with the Bank Secrecy Act and related rules or the OFAC sanctions requirements by an entity supervised by the other, the Commission or Federal Reserve, as relevant, will promptly notify the other party of the significant violation or deficiency and will provide additional information concerning the violation or deficiency upon written request.

## **ARTICLE IV: PROCEDURES FOR IMPLEMENTATION AND APPLICATION OF REGULATION R**

22. Any rules (including exemptions) related to the “broker” exceptions for banks (as that term is defined in section 3(a)(6) of the Exchange Act) that may be appropriate to implement Section 3(a)(4)(B) of the Exchange Act, including any amendments to Regulation R, will be adopted by the Commission and the Board on a joint basis, in accordance with the consultation provisions in Section 101(b) of the Financial Services Regulatory Relief Act of 2006.

23. The Commission and the Board will promptly share any request for an interpretation of, or a no-action letter or other interpretive guidance concerning, the exceptions in Section 3(a)(4)(B) of the Exchange Act or Regulation R.

24. The Commission and the Board will issue on a joint basis any interpretations and responses to requests for no-action letters or other interpretive guidance concerning the scope or terms of the exceptions in Section 3(a)(4)(B) of the Exchange Act or of Regulation R, and will consult and, to the extent appropriate, coordinate with each other and the appropriate federal banking agency for a bank concerning any formal enforcement actions proposed to be taken against a bank for violations of the exceptions or Regulation R.

## **ARTICLE V: PERMISSIBLE USES AND CONFIDENTIALITY OF INFORMATION**

25. For purposes of this Article V, the Commission or Federal Reserve is referred to as the “Providing Party” when it is providing information to the other party and is referred to as the “Receiving Party” when it is receiving information from the other party.

26. To the extent permitted by applicable laws and in accordance with the regulations of the Providing Party, the Commission and the Federal Reserve will maintain the confidentiality of all non-public information obtained pursuant to the MOU and will not disclose such information to any person outside the Commission or Federal Reserve. In addition, the Commission and Federal Reserve will:

a. establish and maintain such safeguards as are necessary and appropriate to protect the confidentiality of any non-public information provided pursuant to this MOU, as well as any information derived therefrom;

b. notify the Providing Party in writing of any legally enforceable demand or request for such information (including but not limited to, a subpoena, court order, or request pursuant to the Freedom of Information Act), provide the Providing Party a reasonable opportunity to respond to the demand prior to complying with the demand or request, and assert all such legal exemptions or privileges on behalf of the Providing Party as the Providing Party may reasonably request be asserted;

c. not grant any other demand or request for the information, not furnish to any third party, make public any portions of the information or information derived therefrom, or make public use of the information, without prior written notice to, and lack of objection after a reasonable period of time by, the Providing Party; and

d. consent to application by the Providing Party to intervene in any related action for the purposes of asserting and preserving any privileges or claims of confidentiality with respect to non-public information obtained from the Providing Party.

27. Use of Information Shared by the Commission and Federal Reserve under the MOU

a. The Commission and the Federal Reserve intend to continue their ongoing practice of sharing information between their enforcement functions and nothing in this MOU, including this Article V, is intended to modify or replace such sharing or the current practices of the Commission and Federal Reserve governing and permitting the use of such enforcement referral information by a Receiving Party.

b. Information received under this MOU from a Providing Party that, in the judgment of the Providing Party, reflects the judgment, analysis, opinion or findings of the Providing Party may be used by the Receiving Party for or in any enforcement investigation, proceeding, or civil action only with the written consent of the Providing Party. In considering whether to grant consent under this paragraph, the Commission and the Federal Reserve will take into account, among other things, the public interest and the need to protect the judgments, analyses, opinions and findings of their respective agencies to preserve the integrity of their supervision and examination processes.

c. The Commission may use non-public information (other than information referred to in subparagraph b.) received from the Federal Reserve that was obtained from a Commission Supervised Entity for or in any enforcement investigation, proceeding, or civil action except that the Commission may disclose any such information to any third party or to the public only with the written consent of the Federal Reserve. The Federal Reserve may use non-public information (other than information referred to in subparagraph b.) received from the Commission that was obtained from a Bank Holding Company or an affiliate other than a Commission Supervised Entity for or in any enforcement investigation, proceeding, or civil



action except that the Federal Reserve may disclose any such information to any third party or to the public only with the written consent of the Commission.

d. The Commission and the Federal Reserve share a strong common interest in maintaining an open flow of information in the supervisory process involving entities under their respective supervision. Under current practices, information obtained in the course of the parties' respective supervisory processes involving CSEs and ANCHCs is used for prudential purposes. As a matter of principle, issues raised by this information are addressed in both programs through supervisory means and are addressed through the enforcement function only if supervisory tools are inadequate or ineffective. The Commission and the Federal Reserve intend to continue this prudential supervisory approach with respect to information shared under this MOU that is not otherwise dealt with under subparagraphs a., b. or c. above or paragraph 18. The Commission and the Federal Reserve will promptly inform and consult with each other in the event either party intends to change this practice, either as a general matter or with regard to a specific entity and in any case in which information under this subparagraph is used for or in any enforcement investigation, proceeding, or civil action.

28. Nothing in the MOU waives or alters any provision of any applicable laws relating to non-public information.

29. The Commission and Federal Reserve agree to take all actions reasonably necessary to preserve, protect, and maintain all privileges and claims of confidentiality related to non-public information provided pursuant to the MOU, in accordance with applicable law.

30. The Commission and Federal Reserve intend that sharing of non-public information with each other pursuant to the terms of the MOU will not constitute public disclosure, nor will it constitute a waiver of confidentiality or any privilege applicable to such information. The Board has authorized the disclosure of information to the Commission under this MOU subject to the provisions of 12 U.S.C. § 1821(t). The Commission and Federal Reserve expressly reserve all evidentiary privileges and immunities applicable to the information shared under this MOU.

31. In the event that the files or information provided by the Commission to the Federal Reserve or vice-versa pursuant to this MOU contain "financial records" of "customers" of "financial institutions," as those terms are defined in the RFP, the exchange of such information is exempt from the customer notice requirement of Sections 1112(a) and (b) of the RFP.

32. Point(s) of Contact

The Commission and the Board designate the following persons as their point(s) of contact for issues related to the interpretation or application of this MOU and any authorizations, approvals or notices of requested modifications under this MOU:

a. With respect to the Commission, the Director of the Division of Trading and Markets, or his or her designee.

- b. With respect to the Board, its General Counsel, or his or her designee.

**ARTICLE VI: EFFECTIVE DATE AND TERMINATION**

The MOU shall become effective as of the date of its signing, shall remain effective unless terminated by either the Commission or the Board, and may be revised or modified, upon agreement of the Commission and Board, or as required by changes in relevant laws. The party recommending the revision or modification shall provide the other party with 30 days' written notice of the proposed change.

Either the Commission or Board may terminate the MOU upon 30 days' written notice to the other party. Following termination, all information that was provided subject to the MOU shall remain confidential and shall continue to be governed by the terms of Article V.

Agreed to this 7th day of July, 2008.

(signed)  
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Christopher Cox  
Chairman  
Securities and Exchange Commission

(signed)  
\_\_\_\_\_  
Ben S. Bernanke  
Chairman  
Board of Governors of the Federal Reserve  
System