

FEDERAL RESERVE BANK *of* NEW YORK

Foreign Banking Organization Seminar

Federal Reserve Bank of New York

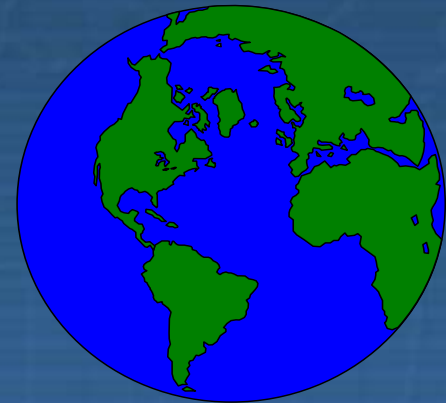
Statistics Function

Banking Structure Division

April 9, 2008

Introduction

Violet Cumberbatch
Banking Structure Division



Agenda

- ▶ Package Contents
- ▶ Purpose
- ▶ Monitoring of Reports.....Violet Cumberbatch
- ▶ Annual Report of Foreign Banking Organizations
FR Y-7.....Corona Johnson Brissett
- ▶ Federal Reserve Bank of New York's Annual
Review of the FR Y-7 Report.....Diana Hall
- ▶ Q & A Session.....Panel

Package Contents

- ▶ Presentation Notes
- ▶ FR Y-7
 - Form, Instructions, and Glossary
- ▶ Tier Report Review Instructions for Foreign Banking Organizations
- ▶ Question Cards
- ▶ Limited Exemption Handout
- ▶ Evaluation Form
 - Fax number: (212) 720-5028
 - E-mail address: violet.cumberbatch@ny.frb.org

Purpose

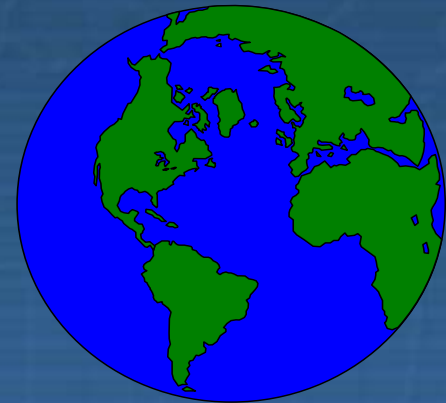
- ▶ To familiarize respondents with the structure reporting requirements for the FR Y-7

Monitoring of Reports

- ▶ To ensure that reports are filed in a timely manner and are accurate and not misleading

Annual Report of Foreign Banking Organizations FR Y-7

*Corona Johnson Brissett
Banking Structure Division*



Overview

- ▶ General Instructions
- ▶ Cover Page
- ▶ Checklist
- ▶ Tiered Foreign Banking Organizations Page
- ▶ Report Item Instructions
- ▶ Glossary

General Instructions

General Instructions

- ▶ Who Must Report:

An FBO, which is termed a reporter for purposes of the FR Y-7, is required to file this report **unless** it does not meet the requirements of and is not treated as a qualifying FBO under Section 211.23 of Regulation K

Note: An FBO that does not meet this definition must file the Annual Report of Bank Holding Companies - FR Y-6

General Instructions

- ▶ Who Must Report:

Note: An FBO that is an FR Y-7 Reporter must report in Report Item 2, Organization Chart of the FR Y-6, Annual Report of Bank Holding Companies, any interests the FBO holds through a bank holding (BHC) organized under U.S. law

General Instructions

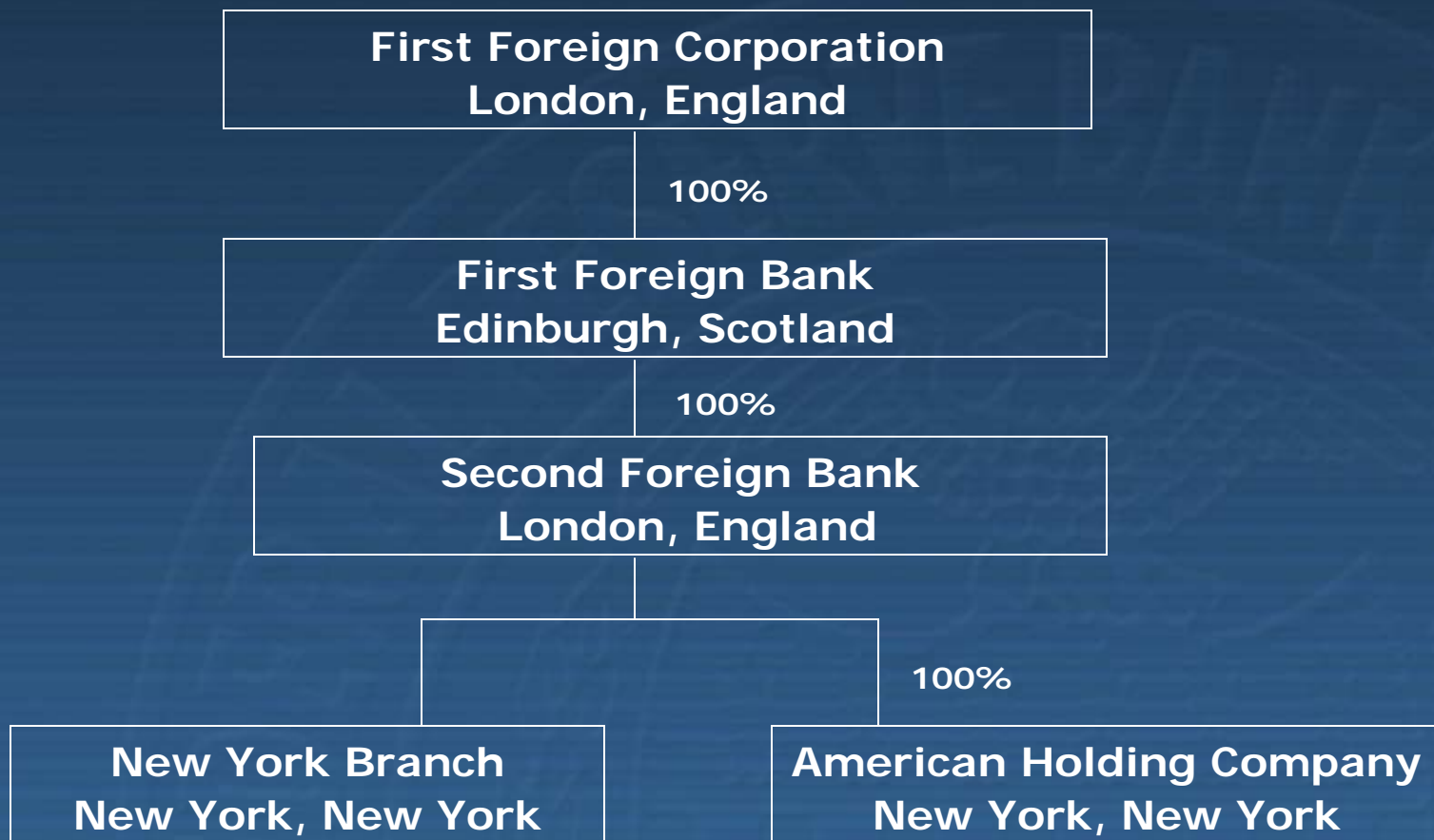
- ▶ Who Must Report:

- Tiered Reporting

- FBOs that are direct or indirect subsidiaries of another FBO may satisfy the reporting requirements of the FR Y-7 by providing the required information as part of the submission of the top-tier FBO

General Instructions

Tiered Reporting



General Instructions

▶ Who Must Report:

Tiered Reporting

- Subsidiary FBOs included within a tiered report are **not** required to complete the following items, if the responses would duplicate the information provided by the top-tier FBO:
 - ▶ Report Item 1 - Financial Information Regarding the Foreign Banking Organization or
 - ▶ Report Item 2 - Organization Information for the FBO

General Instructions

- ▶ Who Must Report:

- Tiered Reporting

- All FBOs included within a tiered report **must** respond individually to:
 - ▶ Report Item 3 - Shares and Shareholders

General Instructions

- ▶ Who Must Report:

- Tiered Reporting

- The top-tier FBO is responsible for completing:
 - ▶ Report Item 4 - Eligibility as a Qualified Foreign Banking Organization

Note: If limited exemption is claimed, a response to Report Item 4 is also required for all foreign banks that are FBOs within the tiered organization.

General Instructions

▶ Who Must Report:

Tiered FBOs with Different Fiscal Year Ends

When:

- ▶ The top-tier FBO is filing a tiered report with a lower-tier FBO and
- ▶ The lower-tier FBO has a different fiscal year end

Then:

- ▶ The FR Y-7 Report is to be prepared as of the top-tier FBO's fiscal year end



General Instructions

▶ Who Must Report:

Copies of this form and instructions may be obtained on the Federal Reserve's public web site (www.federalreserve.gov)

Contact the Federal Reserve Bank in the district where the Reporter submits its FR Y-7 to obtain additional information

General Instructions

▶ Where to Submit the Report:

- Reports should be submitted to the appropriate Federal Reserve Bank
- The original and number of copies of the completed report required by the appropriate Reserve Bank should be submitted
 - ▶ FRBNY requires the original and three copies
- Reports must be:
 - ▶ Clear and legible
 - ▶ Submitted in ink or typewritten form

Note:

The appropriate FRB for an FBO that has no subsidiary bank and is not a bank holding company is the Reserve Bank of the District in which the total assets of the organization's U.S. branches, agencies, commercial lending companies, and Edge and agreement corporations are the largest, and for an FBO that is a bank holding company, it is determined by the location of the banking operations of its subsidiary bank, as measured in total domestic deposits, on the date the FBO becomes a bank holding company.

General Instructions

- ▶ When to Submit the Report:
 - Reports are due no later than 4 months after the reporter's fiscal year end
 - Extension of Time Requests
 - ▶ Submit a letter to the appropriate Federal Reserve Bank
 - ▶ Due no later than 30 calendar days before the filing deadline
 - ▶ State specific reasons for request
 - ▶ State date for final filing
 - Draft information may need to be submitted, and in some instances, must be submitted

General Instructions

- ▶ Procedure for Requesting Confidential Treatment:
 - Submit a letter to the appropriate Federal Reserve Bank with the filing
 - ▶ Provide a detailed discussion that justifies confidential treatment demonstrating the specific nature of the harm that would result from public release of the information

General Instructions

- ▶ Procedure for Requesting Confidential Treatment:
 - ▶ List each portion to be kept confidential

IMPORTANT: Any portion of the report for which confidentiality was requested in the past, which is not specified in the letter, will no longer be treated as confidential

General Instructions

- ▶ Procedure for Requesting Confidential Treatment:
 - Federal Reserve Policy
 - ▶ Strongly favors disclosure of the names and the number and percentage of voting securities in response to Report Item 3 that pertain to shareholders who control 10 percent or more of any class of voting shares of the FBO (particularly for FBOs that control a U.S. bank), **unless** there is shown to be a well-defined present threat to the liberty or personal security of these individuals

General Instructions

- ▶ Procedure for Requesting Confidential Treatment:
 - Report must be submitted in two sections
 - ▶ Separate and bind all pages for which confidentiality is requested and label them “CONFIDENTIAL”
 - ▶ The public section must contain a response for each report item
 - All items for which confidentiality is requested must be identified in the public section as submitted separately in the Confidential Section

Cover Page

Cover Page

- ▶ Authorized Official of the FBO
 - Name, title, and signature, including date of signature
- ▶ Date of Report
 - FBO's fiscal year end (MM/DD/YYYY)
- ▶ Does the reporter request confidential treatment for any portion of this submission?
 - If yes, identify the items, and
 - indicate that a letter is attached and the information is separately labeled

Cover Page

- ▶ Identification of Reporting FBO
 - Legal Name
 - Street Address, City and Country
 - Mailing Address, City and Country (if different from Street Address)

- ▶ Identification of person in the United States to whom questions about the report should be addressed
 - Name and Title
 - Street Address, City, State, and Zip Code
 - Phone and Fax Numbers
 - E-mail Address
 - Address for the FBO's web page

Checklist

Checklist

- ▶ Purpose

To remind the FBO to file all necessary responses to the report items

- ▶ Each report item should be checked “yes,” “no” or “Not applicable (N/A),” and
- ▶ The appropriate blanks filled in

Tiered Foreign Banking Organizations Page

Tiered Foreign Banking Organizations Page

▶ Purpose

To identify subsidiary FBOs that are included in a tiered filing

- Provide responses to the following for each FBO:
 - ▶ Fiscal Year End
 - ▶ Legal Name
 - ▶ Mailing Address
 - ▶ Physical Location
 - ▶ Authorized Official in the United States
 - Street Address
 - City, State, and Zip Code
 - Phone and Fax Numbers
 - E-mail Address
 - Name and Title
 - Signature
 - Date of Signature

Report Item Instructions

Report Item Instructions

- ▶ Report Item 1 – Financial Information Regarding the Foreign Banking Organization
 - Report Item 1(a) – Financial Statements
 - ▶ Statements and Notes covering the FBO's two most recent fiscal years that include or are the equivalent to balance sheets and income statements
 - Must be in English
 - Should be stated in local currency of country of head office of the reporter
 - Must be reported on a consolidated basis if the reporter prepares consolidated statements for any purpose

Report Item Instructions

- ▶ Report Item 1 – Financial Information Regarding the FBO
 - Report Item 1(a) – Financial Statements
 - Preliminary figures must be provided if final data are not available on due date of report
 - Finalized data are due within 30 calendar days from the due date of the report

Report Item Instructions

- ▶ Report Item 1 – Financial Information Regarding the FBO
 - Report Item 1(a) – Financial Statements

Three questions require a response of Yes or No:

- ▶ Have the financial statements been **certified** by an independent public accountant?
- ▶ Do the financial statements **consolidate** all material subsidiaries that are majority-owned financial companies?
- ▶ Do the financial statements reflect any **significant changes in accounting standards or policies** used in preparing such statements since the last filing of the FR Y-7?

(If Yes, describe the changes in a Note or an Attachment)

Report Item Instructions

- ▶ Report Item 1 – Financial Information Regarding the FBO
 - Report Item 1(b) – Annual Report to Shareholders
 - ▶ One copy of the most recent report accompanied by an English translation

Report Item Instructions

- ▶ Report Item 2 – Organization Information for the FBO

- Report Item 2(a) – Organization Chart

What entities must be included:

- ▶ Companies and offices that are reportable on the Report of Changes in Organizational Structure (FR Y-10)

Report Item Instructions

- ▶ Report Item 2 – Organization Information for the FBO
 - Report Item 2(a) – Organization Chart

What additional entities must be included:

- ▶ Nonbanking companies (U.S. companies and non-U.S. companies engaged in business in the United States) in which the reporter directly or indirectly in the aggregate owns more than 5% but less than 25% of any class of voting shares, other than those held through a BHC organized under U.S. law

(Annotate “Not Reportable (NR) on the FR Y-10”)

Report Item Instructions

- ▶ Report Item 2 – Organization Information for the FBO
 - Report Item 2(a) – Organization Chart

What additional entities must be included:

- ▶ Any company that the Federal Reserve System determines should be reported

Note: Companies held under section 211.23(f)(5) of Regulation K are not reportable on the organization chart, but are reportable in Report Item 2(b)

Report Item Instructions

- ▶ Report Item 2 – Organization Information for the FBO
 - Report Item 2(a) – Organization Chart

What information must be included:

- ▶ Full legal name of each entity
- ▶ Location of the entity's main office (city, state/country)
- ▶ Intercompany ownership and control relationships with each direct holder
- ▶ Percentage of voting or nonvoting equity or other interests that are held by each direct holder

Report Item Instructions

- ▶ Report Item 2 – Organization Information for the FBO
 - Report Item 2(b) – Foreign Companies held pursuant to section 2(h)(2) of the BHC Act and section 211.23(f)(5) of Regulation K, or section 4(c)(9) of the BHC Act and section 211.23(f)(5) of Regulation K

(Referred to as section 2(h)(2) companies)

Report Item Instructions

- ▶ Report Item 2 – Organization Information for the FBO
 - Report Item 2(b) – Foreign 2(h)(2) Companies

What information must be reported:

For each foreign company, provide:

- ▶ Legal Name and Location (City/Country)
- ▶ Percent of any class of voting shares owned
- ▶ Percent of the company's worldwide consolidated assets located in the United States and
- ▶ Percent of the company's worldwide consolidated gross revenues that are derived from the United States

Report Item Instructions

- ▶ Report Item 2 – Organization Information for the FBO
 - Report Item 2(b) – Foreign 2(h)(2) Companies

What information must be reported:

In addition, for each foreign company that is a subsidiary:

- ▶ Indicate its U.S. activities (conducted through a U.S. office or a U.S. company, whether or not a subsidiary of the foreign company) and
- ▶ Confirm that these activities are the same as or are related to those conducted abroad as measured by NAICS codes

Report Item Instructions

- ▶ Report Item 2 – Organization Information for the FBO
 - Report Item 2(b) – Foreign 2(h)(2) Companies

Reminder: Pursuant to section 211.23(f)(5)(ii) of Regulation K, foreign companies may not directly underwrite, sell, or distribute, nor own or control more than 10 percent of the voting shares of a company that underwrites, sells, or distributes securities in the United States, except to the extent permitted to BHCs

Report Item Instructions

- ▶ Report Item 3 – Shares and Shareholders
 - Must be filed for the reporter and each subsidiary FBO

Report Item Instructions

- ▶ Report Item 3 – Shares and Shareholders
 - Report Item 3(a) – Number and Types of Shares
 - Description of the shares (or the equivalent) that have been authorized, issued, or held for the FBO's own account including:
 - ▶ Number and types of shares (voting/nonvoting, common/preferred, bearer/nonbearer)
 - ▶ Voting rights of each type of share
 - ▶ Agreements that limit the voting of such shares
 - ▶ Description of regulations requiring registration with the FBO or regulatory agency of the ownership of bearer securities

Report Item Instructions

- ▶ Report Item 3 – Shares and Shareholders
 - Report Items 3(b) and 3(c) – Nonbearer and Bearer Securities
 - Circle Yes or No to indicate whether the FBO has nonbearer securities and/or bearer securities.
 - List each shareholder that directly or indirectly owns, controls, or holds with power to vote 5% or more of any class of:
 - ▶ Nonbearer securities of the FBO (including the beneficial owner, if ascertainable)
 - and/or
 - ▶ Bearer securities of the FBO if the shareholder is known to the FBO

Report Item Instructions

- ▶ Report Item 3 – Shares and Shareholders
 - Report Items 3(b) and 3(c) – Nonbearer and Bearer Securities
 - Report the following:
 - ▶ Name and address of principal residence for individuals or of head office for companies
 - ▶ Country of citizenship or country of organization
 - ▶ Number and percentage of each class of nonbearer securities and bearer securities (or their equivalent) owned, controlled, or held with power to vote

Report Item Instructions

- ▶ Report Item 4 – Eligibility as a Qualified Foreign Banking Organization
 - Must be filed by the reporter
 - Subsidiary FBOs within a tiered report need not provide a separate response unless limited exemption is claimed pursuant to section 211.23(c) of Regulation K
 - ▶ Section 211.23(c) is applicable when a foreign bank meets the criteria to be a QFBO but its ultimate parent does not

Report Item Instructions

- ▶ Report Item 4 – Eligibility as a Qualified Foreign Banking Organization
 - To qualify for the exemption from the nonbanking prohibitions of the BHC Act, an FBO must be principally engaged in the banking business outside the United States
 - Requirements for an FBO to qualify for the exemption (unless specifically made eligible by the Board):
 - ▶ Disregarding its U.S. banking, more than half of its worldwide business is banking,
 - and
 - ▶ More than half of its banking business is outside the United States

Report Item Instructions

- ▶ Report Item 4 – Eligibility as a Qualified Foreign Banking Organization
 - Certain top-tier FBOs in tiered organizations that do not meet the criteria may be eligible for limited exemptions as described in section 211.23(c) of Regulation K
 - ▶ These FBOs may be eligible for exemptions available to a QFBO except for those exemptions provided in section 211.23(f)(5) of Regulation K (i.e., with regard to section 2(h)(2) companies)

Worldwide Business Activities and Banking Business Activities

Report Item Instructions

- ▶ Report Item 4 – Eligibility as a Qualified Foreign Banking Organization

Criteria for Qualifying:

- Report Worldwide Business Activities:
 - ▶ Total Worldwide Nonbanking and
 - ▶ Total Non-U.S. Banking
- Measured in terms of 2 of the following 3 items:
 - ▶ Assets
 - ▶ Revenues
 - ▶ Net Income

Report Item Instructions

- ▶ Report Item 4 – Eligibility as a Qualified Foreign Banking Organization

Criteria for Qualifying:

- Report Banking Business Activities:
 - ▶ Total Non-U.S. Banking and
 - ▶ Total U.S. Banking
- Measured in terms of 2 of the following 3 items:
 - ▶ Assets
 - ▶ Revenues
 - ▶ Net Income

Report Item Instructions

- ▶ Report Item 4 – Eligibility as a Qualified Foreign Banking Organization
 - Reporters may provide information on either a **consolidated** or **combined** basis for Worldwide Business Activities and Banking Business Activities in response to Report Items 4(e) and 4(f)

Report Item Instructions

- ▶ Report Item 4 – Eligibility as a Qualified Foreign Banking Organization
 - FBOs that do not meet the criteria will be eligible for limited exemptions as described in section 211.23(c) of Regulation K if they meet the following requirements:
 - Each foreign bank within the organization that is an FBO meets the criteria to be a QFBO

Report Item Instructions

- ▶ Report Item 4 – Eligibility as a Qualified Foreign Banking Organization
 - ▶ The top-tier FBO meets the requirements for Banking Business and would meet the requirements for Worldwide Business if, in calculating Worldwide Business, the top-tier FBO counts as non-U.S. banking all activities listed in section 211.10 of Regulation K conducted by it and its direct and indirect subsidiaries,
 - i.e., the limitation that such activities must be conducted through a foreign bank or its direct or indirect subsidiaries in order to be considered banking activities shall not apply

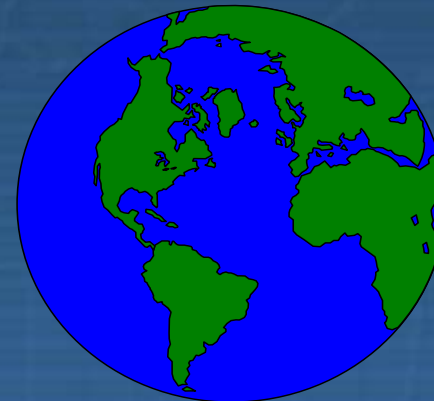
Glossary

- ▶ Contains terms and definitions used in the FR Y-7
- ▶ Supplements the Glossary in the FR Y-10

BREAK

Federal Reserve Bank of New York's Annual Review of the FR Y-7 Report

Diana Hall
Banking Structure Division



FR Y-7 Review conducted by the Banking Structure Division (BSD)

Objectives of BSD's Review:

- To determine compliance with certain banking laws and regulations
- To reconcile the FBO's view of its reportable organizational structure at fiscal year end with the information reported to the Federal Reserve on FR Y-10 reports
- To improve the quality of future submissions and minimize follow-ups

Sources Used

- ▶ Previous FR Y-7 Reports
- ▶ FR Y-10 Reports
- ▶ Tiering Report

Tiering Report

- ▶ The Tiering Report and its review instructions are sent annually to the FBO
- ▶ Report contains the FBO's structure information as of a specific date as reported on the FR Y-10 reports over time
- ▶ Purpose of FBO's Review of the Tier Report:
 - To identify and resolve any discrepancies between the tier report and the organization chart that is being prepared as part of the FR Y-7 report

Note: Does not include reportable large merchant banking and insurance company investments

Tiering Report

- ▶ The Tiering Report should not be used to submit data changes (i.e., corrections and updates)

FR Y-10 reports must be submitted to report corrections or updates to the data

Data Items on Tiering Report

Legal Name: **FIRST FOREIGN BANK**

City: **LONDON**

Country: **ENGLAND**

ID_RSSD: 3043558 Physical Dist: 0 Reg Dist: 2 AFU: 2

ID_CUSIP: 0 BHC_IND: 0 FBO_4C9_IND: 1

CHTR_TYPE_CD: 200 FNCL_SUB_HOLDER: 0 FNCL_SUB_IND: 0

FHC_IND: 1 FUNC_REG: 0 MB_COST: 0

Primary Activity: **52211 COMMERCIAL BANKING**

- Legal Name: **NEW YORK BRANCH**

City: **NEW YORK** State: **NEW YORK**

ID_RSSD: 3043567 Physical Dist: 2 AFU: 2

- Legal Name: **AMERICAN COMPANY INC.**

City: **NEW YORK** State: **NEW YORK**

ID_RSSD: 3043615 Physical Dist: 2 Reg. Dist: 0 AFU: 2

ID_CUSIP: 0 BHC_IND: 0 FBO_4C9_IND: 0

CHTR_TYPE_CD: 500 FNCL_SUB_HOLDER: 0 FNCL_SUB_IND: 0

FHC_IND: 0 FUNC_REG: 0 MB_COST: 0 FUNC_REG: 0

Primary Activity: **551112 OFFICES OF OTHER HOLDING COMPANIES**

Relationship: **Direct, Controlled, Regulated** DT_RELN_EST: 20010428

Basis of Relationship: **Voting Equity (25-50%)**

The Review by BSD

- ▶ Cover Page
 - Reviewed for presence and completeness
- ▶ Checklist
 - Reviewed for completeness and presence of corresponding items
- ▶ Tiered Foreign Banking Organizations Page
 - Reviewed to account for required filings

The Review by BSD

- ▶ Report Item 1(a) – Financial Statements
 - Reviewed for completeness
- ▶ Report Item 1(b) – Annual Report to Shareholders
 - Reviewed for relevant information about structure changes within the FBO

The Review by BSD

- ▶ Report Item 2(a) – Organization Chart
 - Reviewed to identify differences from the information reported on FR Y-10

The Review by BSD

- ▶ Report Item 2(a) – Organization Chart
 - Comparison of Organization Chart to Tiering Report:
 - ▶ Verification of:
 - Legal name and physical location of each entity (city, state/country)
 - All direct and indirect parents
 - Percentage of ownership or other interests

The Review by BSD

- ▶ Report Item 2(a) – Organization Chart
 - Comparison of Organization Chart to Tier Report:
 - ▶ Identification and resolution of all companies appearing on the **tier report** but not on the **organization chart**, e.g.,
 - Companies that were divested or became no longer reportable before the FBO's fiscal year end, but FR Y-10 reports were not filed

The Review by BSD

- ▶ Report Item 2(a) – Organization Chart
 - Comparison of Organization Chart to Tier Report:
 - ▶ Identification and resolution of all companies appearing on the **organization chart** but not on the **tier report**, e.g.,
 - Companies that were acquired or became reportable before the FBO's fiscal year end, but FR Y-10s were not filed

The Review by BSD

- ▶ Report Item 2(a) – Organization Chart
 - Comparison of Organization Chart to Tier Report:
 - ▶ Companies appearing on the **organization chart** but not on the **tier report**, e.g.,

Valid Discrepancies:

- Reportable large merchant banking and insurance company investments
- Nonbanking companies owned greater than 5% but less than 25%

(If not reported separately, these companies should be identified on the organization chart with “Not Reportable (NR) on the FR Y-10”)

The Review by BSD

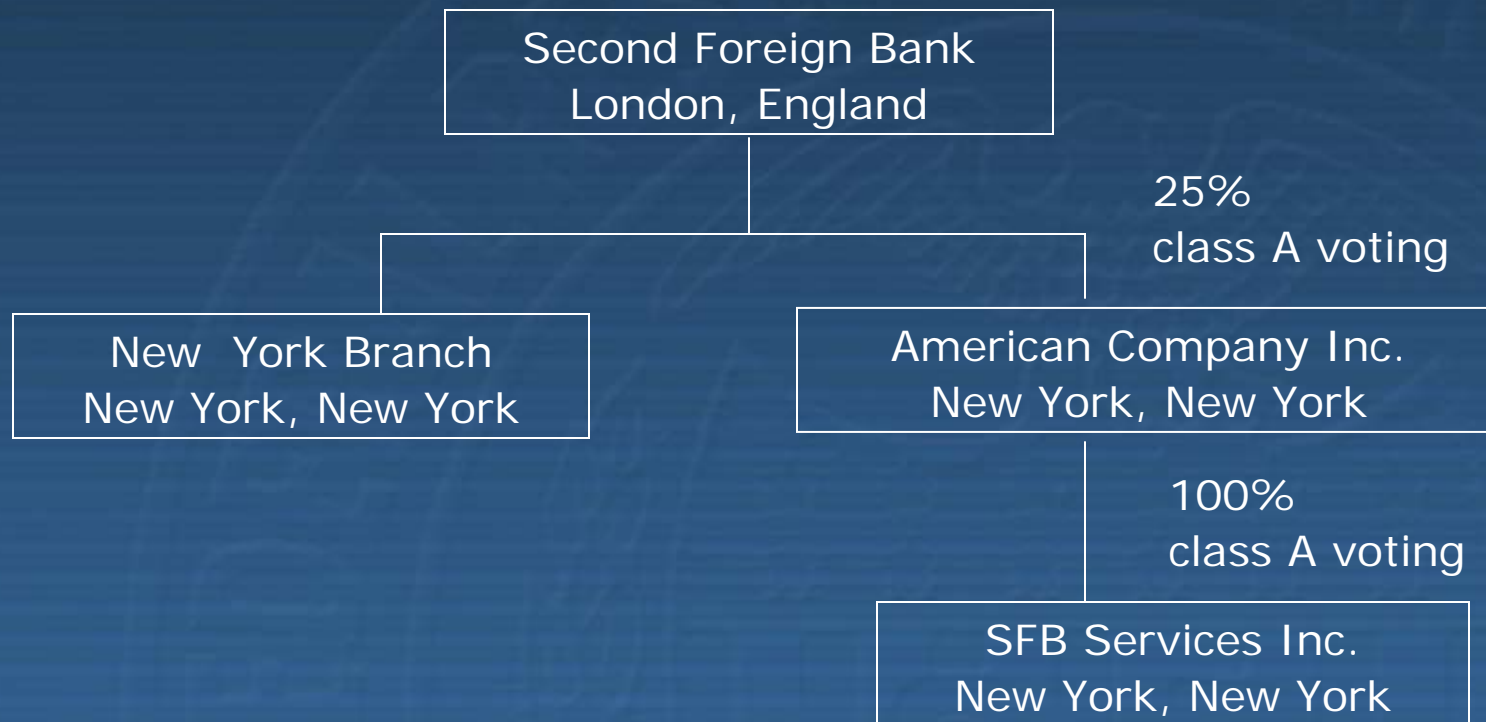
- ▶ Report Item 2(a) – Organization Chart

Examples of
Diagram
and
List Formats

Sample Organization Chart

Diagram Format

Report Item 2(a)
Second Foreign Bank
As of December 31, 2007



Sample Organization Chart

List Format

Report Item 2(a)
Second Foreign Bank
As of December 31, 2007

Second Foreign Bank, London, England

- New York Branch, New York, New York
- American Company Inc., New York, New York
(25% of class A voting shares)
 - SFB Services Inc., New York, New York
(100% of class A voting shares)

The Review by BSD

- ▶ Report Item 2(b) – Foreign companies held pursuant to section 2(h)(2) of the BHC Act and section 211.23(f)(5) of Regulation K, or section 4(c)(9) of the BHC Act and section 211.23(f)(5) of Regulation K
 - Reviewed by BSD to determine if the companies are in compliance with the regulatory and statutory provisions and whether the FBO may continue to claim the exemption

The Review by BSD

- ▶ Report Item 2(b)
 - FBO must confirm that more than half of each **foreign** company's worldwide consolidated assets are located and worldwide consolidated gross revenues are derived from outside the United States
 - ▶ To verify this for each foreign company, the FBO must provide the percent of **both** the worldwide consolidated assets that are located in **and** worldwide consolidated gross revenues that are derived from the United States

The Review by BSD

- ▶ Report Item 2(b)
 - FBO must confirm for each foreign subsidiary that the activities conducted in the United States are the same or related to the activities engaged in abroad
 - ▶ To verify this for each foreign company that is a subsidiary, the FBO must report its U.S. activities and confirm that these activities are the same or related to those conducted abroad as measured by NAICS codes

The Review by BSD

▶ Report Item 2(b)

Sample Submission

XYZ Inc, Tokyo, Japan (100% of voting shares)

- ▶ % of Worldwide Consolidated Assets located in U.S. – **11%**
- ▶ % of Worldwide Consolidated Gross Revenues derived from U.S. - **8%**
- ▶ U.S. Activity – Repair and Maintenance of Commercial and Industrial Machinery and Equipment (NAICS code **81131**)
- ▶ **Same** activity conducted abroad

ABC Co., Paris, France (18% voting shares)

- ▶ % of Worldwide Consolidated Assets located in U.S. - **13%**
- ▶ % of Worldwide Consolidated Gross Revenues derived from U.S. - **9%**

The Review by BSD

- ▶ Report Item 2(b)
 - Failure to meet these conditions for two consecutive years means:
 - ▶ Loss of eligibility for exemption for the company which
 - must be divested or its activities terminated within one year of the filing of the second consecutive annual report that reflects nonconformance unless the Board grants consent to retain the investment

The Review by BSD

- ▶ Report Item 3 – Shares and Shareholders
 - Reviewed to verify ownership and control of the FBO

The Review by BSD

- ▶ Report Item 3(a) – Number and Types of Shares
 - Identifies the composition of the share structure and voting rights of those shares

The Review by BSD

- ▶ Report Item 3(a)

Some Examples

- ▶ 500,000 Class A common voting nonbearer shares authorized with 5 votes per share, of which 400,000 are issued. (There are no restrictions on voting rights and no registration requirements)
- ▶ 250,000 Class B common voting nonbearer shares authorized with 2 votes per share, of which 200,000 are issued. (No restrictions on voting rights)

The Review by BSD

- ▶ Report Item 3(b) – Nonbearer Securities
 - Identifies owners of nonbearer securities of the FBO
 - ▶ Information on each shareholder (including the beneficial owner, if ascertainable) that owns, controls, or holds with power to vote **5 percent or more** of any class of nonbearer securities should be listed

Example:

Joseph B. Foreign

Sydney, Australia

Citizen of Australia

10,000 (5%) of Class B common voting nonbearer shares

The Review by BSD

- ▶ Report Item 3(c) – Bearer Securities
 - Identifies owners of bearer securities of the FBO
 - ▶ Information on each known shareholder that owns, controls, or holds with power to vote **5 percent or more** of any class of bearer securities should be listed

Example:

London Corporation

10 Britain Way

London, England

Incorporated in England

5,000 (5%) of Class A common voting bearer shares

The Review by BSD

- ▶ Report Item 4 – Eligibility as a Qualified Foreign Banking Organization
 - Reviewed to verify whether the FBO qualifies for the exemption from the nonbanking prohibitions of the BHC Act pursuant to sections 2(h)(2) and 4(c)(9) of the Act

The Review by BSD

- ▶ Report Item 4 – Eligibility as a QFBO
 - To qualify for the exemption from the nonbanking prohibitions of the BHC Act, an FBO must be principally engaged in banking business outside of the United States

The Review by BSD

- ▶ Report Item 4 – Eligibility as a QFBO

- An FBO qualifies for the exemption only if:

disregarding its U.S. banking, more than half of its worldwide business is banking;

and

more than half of its banking business is outside the United States

unless specifically made eligible for the exemption by the Federal Reserve Board

The Review by BSD

- ▶ Report Item 4 – Eligibility as a QFBO

To verify qualification for the exemption:

- FBO must report:

2 of the 3 criteria in 4(e) for
Worldwide Business Activities

and

2 of the 3 criteria in 4(f) for
Banking Business Activities

- ▶ The same 2 criteria in each category need not be reported. However, when the same criterion is reported in both 4(e) and 4(f), the amounts reported for Total Non-U.S. Banking must be **equal**

The Review by BSD

▶ Report Item 4 – Eligibility as a QFBO

Quality Check

(e) Worldwide Business Activities:

1. Assets:

a. total worldwide nonbanking

b. total non-U.S. banking

2. Revenues derived from:

a. total worldwide nonbanking

b. total non-U.S. banking

3. Net Income derived from:

a. total worldwide nonbanking

b. total non-U.S. banking

(f) Banking Business Activities:

1. Assets:

a. total non-U.S. banking

b. total U.S. banking

2. Revenues derived from:

a. total non-U.S. banking

b. total U.S. banking

3. Net Income derived from:

a. total non-U.S. banking

b. total U.S. banking

The Review by BSD

- ▶ Report Item 4 – Eligibility as a QFBO

To qualify for the exemption, the following tests must be met:

For Worldwide Business Activities 4(e):

Total Non-U.S. Banking **must exceed** Total Worldwide Nonbanking

- when reported for Assets, Revenues, or Net Income

For Banking Business Activities 4(f):

Total Non-U.S. Banking **must exceed** Total U.S. Banking

- when reported for Assets, Revenues, or Net Income

The Review by BSD

▶ Report Item 4 – Eligibility as a QFBO

Compliance Check

(e) Worldwide Business Activities:

1. Assets:

a. total worldwide nonbanking

b. total non-U.S. banking

2. Revenues derived from:

a. total worldwide nonbanking

b. total non-U.S. banking

3. Net Income derived from:

a. total worldwide nonbanking

b. total non-U.S. banking

(f) Banking Business Activities:

1. Assets:

a. total non-U.S. banking

b. total U.S. banking

2. Revenues derived from:

a. total non-U.S. banking

b. total U.S. banking

3. Net Income derived from:

a. total non-U.S. banking

b. total U.S. banking

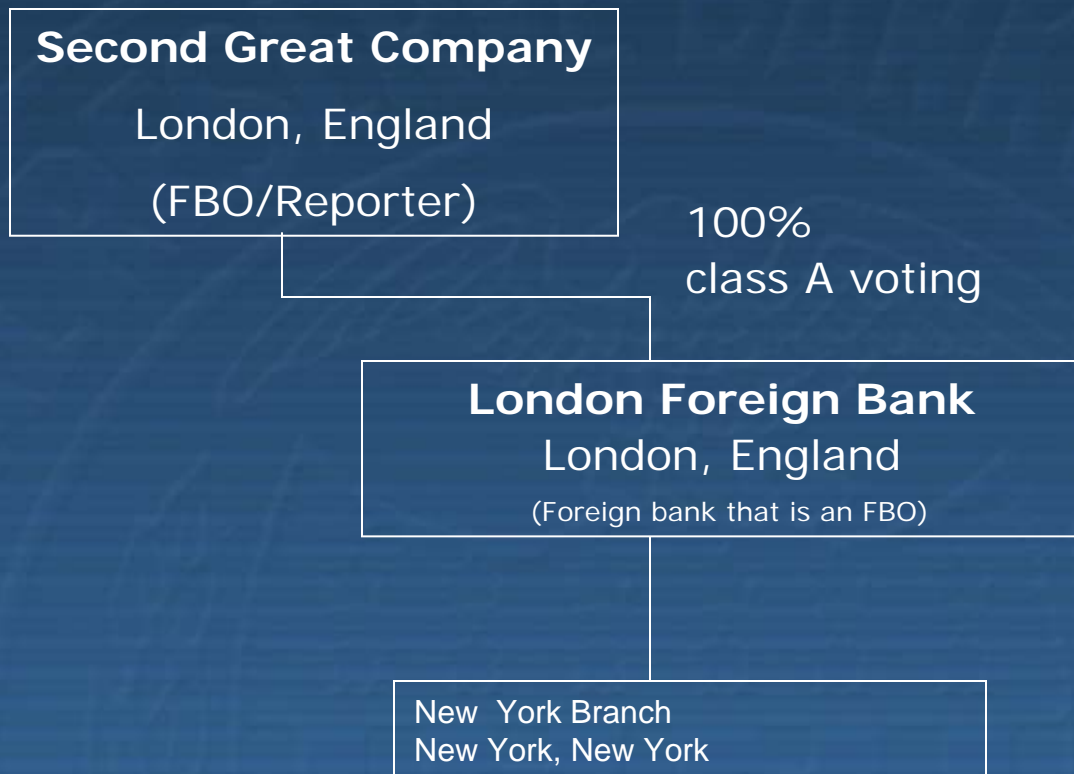
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- ▶ Report Item 4 – Eligibility as a QFBO
 - Certain FBOs that do not meet the criteria in 4(e) and 4(f) will be eligible for limited exemptions pursuant to section 211.23(c) of Regulation K if they meet the requirements in:
 - 4(j) and (k) for each foreign bank that is an FBO within the tiered organization
 - and
 - 4(l) and (m) for the top-tier FBO

Note: Section 211.23(c) is applicable when a foreign bank meets the criteria to be a QFBO but its ultimate parent does not

Report Item 4-Eligibility as a QFBO

Item 4(j) and (k) and 4(l) and (m)



Test to Qualify for Limited Exemption

Worldwide Business Activities

Report Item 4(e) - Ultimate Parent (Consolidated or Combined)

1. Assets:
 - a. total worldwide nonbanking.....
 - b. total non-U.S. banking.....**
2. Revenues derived from:
 - a. total worldwide nonbanking.....
 - b. total non-U.S. banking.....**
3. Net Income derived from:
 - a. total worldwide nonbanking.....
 - b. total non-U.S. banking.....**

Banking Business Activities

Report Item 4(f) – Ultimate Parent (Consolidated or Combined)

1. Assets:
 - a. total non-U.S. banking.....**
 - b. total U.S. banking.....
2. Revenues derived from:
 - a. total non-U.S. banking.....**
 - b. total U.S. banking.....
3. Net Income derived from:
 - a. total non-U.S. banking.....**
 - b. total U.S. banking.....

Report Item 4(j) - Lower Tier Foreign Bank That is a QFBO

1. Assets:
 - a. total worldwide nonbanking.....
 - b. total non-U.S. banking.....**
2. Revenues derived from:
 - a. total worldwide nonbanking.....
 - b. total non-U.S. banking.....**
3. Net Income derived from:
 - a. total worldwide nonbanking.....
 - b. total non-U.S. banking.....**

Report Item 4(k) – Lower Tier Foreign Bank That is a QFBO

1. Assets:
 - a. total non-U.S. banking.....**
 - b. total U.S. banking.....
2. Revenues derived from:
 - a. total non-U.S. banking.....**
 - b. total U.S. banking.....
3. Net Income derived from:
 - a. total non-U.S. banking.....**
 - b. total U.S. banking.....

Report Item 4(l) - Ultimate Parent (recalculated regarding 211.10 activities)


1. Assets:
 - a. total worldwide nonbanking.....
 - b. total non-U.S. banking.....**
2. Revenues derived from:
 - a. total worldwide nonbanking.....
 - b. total non-U.S. banking.....**
3. Net Income derived from:
 - a. total worldwide nonbanking.....
 - b. total non-U.S. banking.....**

Report Item 4(m) – Ultimate Parent

1. Assets:
 - a. total non-U.S. banking.....**
 - b. total U.S. banking.....
2. Revenues derived from:
 - a. total non-U.S. banking.....**
 - b. total U.S. banking.....
3. Net Income derived from:
 - a. total non-U.S. banking.....**
 - b. total U.S. banking.....


The Review by BSD

- ▶ Report Item 4 – Eligibility as a QFBO
 - Failure to meet the requirements for two consecutive years means:
 - ▶ The FBO has ceased being eligible for the exemption from the nonbanking prohibitions of the BHC Act
 - ▶ Activities commenced or investments made **after** the end of the **first** fiscal year for which its annual report reflects nonconformance **must** be terminated or divested within three months of the filing of the **second** annual report **unless** the Board grants consent to continue the activity or retain the investment



Break

Q & A



THE END