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**Summary of the Fed's Proposed new Regulatory Scheme for Foreign Banks**

On Friday, the Fed announced a new plan for regulating banks in the U.S. The proposal is 304 pages long, accompanied by a 22-page Board staff memorandum.

**Who is covered?**

If your bank has less than \$50 billion in global assets you can stop reading and skip to the heading for smaller banks. Generally, the proposal would apply to foreign banking organizations with total global consolidated assets of \$50 billion or more. It would apply a reduced set of requirements to the roughly 84 foreign banking organizations that each have total global consolidated assets of \$50 billion or more but combined U.S. assets of less than \$50 billion, in light of the limited risk to U.S. financial stability posed by these firms. It would apply a set of more stringent standards to the roughly 23 foreign banking organizations that each have combined U.S. assets of \$50 billion or more.

**When does it start?**

The proposed effective date for the rules is July 1, 2015.

**What has to be done?**

A foreign banking organization with total global consolidated assets of \$50 billion or more will have to organize its U.S. subsidiaries under a single U.S. intermediate holding company, which would be subject to enhanced prudential standards on a consolidated basis. U.S. branches and agencies could be excluded. A foreign banking organization with combined U.S. assets (excluding assets held by a U.S. branch or agency) of less than \$10 billion would not be required to form a U.S. intermediate holding company.

## **What will the Intermediate Holding Companies have to do?**

### Capital and Leverage Standards.

All U.S. intermediate holding companies would be subject to the same risk-based capital and leverage standards applicable to U.S. bank holding companies. A U.S. intermediate holding company with total consolidated assets of \$50 billion or more would be subject to the Board's capital plan rule governing capital distributions. A foreign banking organization would be required to certify that it meets capital adequacy standards established by its home country supervisor on a consolidated basis and that those standards are consistent with the Basel Capital Framework.

### Liquidity at the Holding Company

The U.S. operations of a foreign banking organization with combined U.S. assets of \$50 billion or more would be required to meet liquidity risk management standards, conduct internal liquidity stress tests, and maintain a 30-day buffer of highly liquid assets. The U.S. intermediate holding company would be required to maintain the full 30-day buffer in the United States.

A foreign banking organization with total global consolidated assets of \$50 billion or more but combined U.S. assets of less than \$50 billion would be required to report the results of an internal liquidity stress test (either on a consolidated basis or for its combined U.S. operations) to the Board on an annual basis.

### Liquidity at the Branches

The U.S. branch and agency network would be required to maintain the first 14 days of its 30-day buffer in the United States and would be permitted to meet the remainder of the requirement at the parent consolidated level.

### Lending Limits

The rule would limit the credit exposure of both a U.S. intermediate holding company and the combined U.S. operations of a foreign banking organization to a single unaffiliated counterparty, by establishing a general limit of 25% of regulatory capital and more stringent limits for major U.S. intermediate holding companies.

### New Risk Mitigation Steps and Stress testing

A foreign banking organization with combined U.S. assets of \$50 billion or more would be subject to additional U.S. risk committee requirements and a requirement to appoint a U.S. chief risk officer. A U.S. intermediate holding company would be subject to the Board's stress testing rules as if it were a U.S. bank holding company.

**What will the smaller banks have to do?**

A foreign banking organization with total global consolidated assets of \$10 billion or more would be required to certify that they maintain a U.S. risk committee. A foreign banking organization with total global consolidated assets of \$10 billion or more would be required to be subject to a home country stress testing regime that is broadly consistent with the Board's stress testing regime for U.S. bank holding companies or would be subject to additional requirements to help ensure the capital adequacy of their U.S. operations.

**What happens if your bank cannot meet these requirements?**

The combined U.S. operations of a foreign banking organization would be subject to early remediation triggers based on capital ratios, stress test results, market indicators, and liquidity and risk management weaknesses. A foreign banking organization with combined U.S. assets of \$50 billion or more that exceeds an early remediation trigger would be subject to a set of nondiscretionary remediation actions imposed on its U.S. operations. Foreign banking organizations with a smaller U.S. presence would not be automatically subject to remediation actions.

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