



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

February 18, 2016

Ms. Lorraine E. Waller
Associate General Counsel
BMO Financial Group
111 West Monroe Street, 19E
Chicago, Illinois 60603

Mr. Andrew T. Karp
Deputy General Counsel
BMO Financial Group
111 West Monroe Street, 19E
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Dear Ms. Waller and Mr. Karp:

This letter is in response to your request, dated December 29, 2014, that the Board permit Bank of Montreal (“BMO”), Toronto, Canada, to hold its ownership interest in Moneris Solutions, Inc. (“Moneris U.S.”) outside of the intermediate holding company (“IHC”) established by BMO for purposes of compliance with Regulation YY. Alternatively, if the Board denies BMO’s request, BMO has requested an extension, until July 1, 2017, to transfer its ownership interest in Moneris U.S. to its IHC.

Regulation YY requires a foreign banking organization with \$50 billion or more in total U.S. non-branch assets to establish an IHC and to transfer its ownership interest in U.S. subsidiaries to the IHC.¹ Under Regulation YY, the Board may permit the foreign banking organization to hold its interest in a U.S. subsidiary outside of its IHC if circumstances otherwise warrant an exception based on the foreign banking organization’s activities, scope of operations, structure, or similar considerations.² BMO

¹ 12 CFR 252.152. U.S. non-branch assets are measured as an average of the amount reported for the four most recent consecutive quarters, as reported to the Board on the FR Y-7Q.

² 12 CFR 252.153(c)(1)-(2).

is a foreign banking organization with \$118.3 billion in total U.S. non-branch assets as of June 30, 2015. Accordingly, BMO is required to establish an IHC under Regulation YY.

The subsidiary for which BMO requests an exemption, Moneris U.S., is the U.S. subsidiary of a 50-50 Canadian joint venture between BMO and Royal Bank of Canada ("RBC"), Moneris Solutions Corporation ("Moneris JV"). Moneris JV operates in the United States through Moneris U.S. and in Canada through Moneris JV and Moneris Services Corporation. Moneris U.S. and Moneris JV engage in third-party merchant acquiring and payment processing activities related to credit, debit, and prepaid cards. Most of the employees of Moneris JV are located in Canada, and approximately [REDACTED] percent of the revenues of Moneris JV derive from its operations in Canada. However, the sales model of Moneris U.S. results in the booking of [REDACTED] percent of the assets of Moneris JV in the United States. Moneris U.S. represents less than [REDACTED] percent of BMO's IHC pro-forma assets (as reported in BMO's implementation plan, dated December 29, 2014).

Absent an exemption, BMO represents that Moneris JV engages in enterprise-wide risk management over Moneris U.S. BMO argues that transferring Moneris U.S. to the IHC would impose significant costs on BMO and Moneris JV, shift the focus away from operations, and put Moneris JV at a competitive disadvantage relative to its competitors. BMO also argues that the revenues and assets of Moneris JV are small relative to those of BMO and that Moneris JV has demonstrated sustained financial independence and strength.

BMO represents that it has only two ways to comply with Regulation YY with respect to Moneris U.S., both of which would be costly and inefficient. One approach would involve Moneris JV transferring the interests in Moneris U.S. 50-50 to BMO's and RBC's respective IHCs. BMO argues that this approach would split the business into two separate organizational lines, would create inefficient and unproductive structures and processes that would interfere with the ability to manage Moneris JV and Moneris U.S. on an integrated North American basis as part of the Moneris JV risk-management framework, and would require the creation of a number of management and inter-company arrangements with corresponding implementation costs. BMO also argues that implementation of this structure may generate a significant Canadian tax liability unless a favorable ruling can be obtained from Canadian tax authorities.

As an alternative to this approach, BMO represents that BMO and RBC could each transfer their 50 percent interest in Moneris JV to their respective IHCs, which would result in the IHCs holding and managing a Canadian joint venture. However, BMO argues that this approach would force a Canadian business predominantly staffed by Canadian employees and managed out of Canada to report through two U.S. holding companies, and that it would be impracticable and inefficient from an enterprise perspective to require the entire Canadian operating business to report

through the IHCs. BMO represents that the steps in the restructuring related to this alternative approach would have significant tax consequences under Canadian tax law.

After consideration of all relevant facts, including BMO's activities, scope of operations, structure, and similar considerations, the Board has denied BMO's request to hold its ownership interest in Moneris U.S. outside of its IHC, but has granted BMO an extension, until July 1, 2017, to complete the transfer.

As stated in the preamble to Regulation YY, the Board expected to permit a foreign banking organization to hold its interest in a U.S. subsidiary outside of its IHC in narrow circumstances. BMO and RBC each have a significant banking presence in the United States, and both BMO and RBC must comply with the IHC requirement. BMO is not prohibited by applicable home country law from transferring its interest in Moneris U.S. to its IHC. Although BMO has identified costs and operational challenges that would result from the Board's determination not to grant the exemption requests, on the whole, the financial stability benefits of the IHC outweigh the costs of the one-time reorganization costs. As contemplated by Regulation YY, upon the transfer to the IHCs, Moneris U.S. would be subject to capital, liquidity, and other enhanced prudential standards set by the Federal Reserve for U.S. operations. Moneris U.S. also would be subject to oversight by the U.S. risk committees and U.S. risk management frameworks of BMO, which would ensure that BMO is able to manage Moneris U.S. as part of its U.S. operations. In addition, granting the request would reduce the amount of regulatory capital required in the United States for its U.S. operations. However, to ameliorate these costs and to better enable BMO to address its regulatory compliance challenges relating to Moneris U.S., the Board is granting BMO's request for an extension, until July 1, 2017, to comply with the requirement.

For the reasons stated above, the Board has denied BMO's request for an exemption from Regulation YY's requirement to transfer its ownership interest in Moneris U.S. to its IHC and approved BMO's request for an extension until July 1, 2017, to complete the transfer.

Very truly yours,

(signed) Margaret McCloskey Shanks

Margaret McCloskey Shanks
Deputy Secretary of the Board

cc: Ms. Paula S. Armstrong
Federal Reserve Bank of Chicago