

FEDERAL RESERVE SYSTEM
Lloyds Bank Corporate Markets plc
London, England

Order Approving Establishment of a Branch

Lloyds Bank Corporate Markets plc (“LBCM”), London, England, a foreign bank within the meaning of the International Banking Act of 1978 (“IBA”), has applied under section 7(d) of the IBA¹ to establish a state-licensed branch in New York, New York. The IBA provides that a foreign bank must obtain the approval of the Board to establish a branch in the United States.

Notice of the application, affording interested persons an opportunity to comment, has been published in a newspaper of general circulation in New York, New York (*The New York Times*, May 15, 2018). The time for submitting comments has expired, and the Board has considered all comments received.

LBCM is a subsidiary of Lloyds Banking Group plc (“LBG”), London, England.² LBG, with consolidated assets of approximately \$1.1 trillion, is the parent company of the third largest banking group in the United Kingdom.³ LBG operates through subsidiaries that provide a variety of retail, corporate, and investment banking services. Outside the United Kingdom, LBG has operations in continental Europe, the Channel Islands, the Isle of Man, Gibraltar, Singapore, and the United States. LBG primarily operates in the United States through a licensed broker-dealer, Lloyds

¹ 12 U.S.C. § 3105(d).

² LBG is a publicly traded company, and its shares are widely held. As of February 23, 2018, BlackRock Inc. and Harris Associates L.P. each owned approximately 5 percent of the issued ordinary shares of LBG, and no other shareholder owned more than 5 percent of LBG’s shares.

³ Asset and ranking data are as of December 31, 2017.

Securities Inc. (“LSI”), and offices of LBG’s bank subsidiaries, Lloyds Bank plc (“Lloyds Bank”), London, England, and Bank of Scotland plc (“BoS”), Edinburgh, Scotland. Currently, Lloyds Bank and BoS each have a state-licensed branch in New York, New York, and BoS operates a representative office in Houston, Texas. In 2008, LBG elected to be treated as a financial holding company within the meaning of the Bank Holding Company Act of 1956, as amended (“BHC Act”).⁴

LBG is in the process of reorganizing its operations to comply with U.K. “ring-fencing” requirements, which generally go into full effect on January 1, 2019.⁵ Under the applicable ring-fencing rules, U.K. banking groups with retail deposits and/or deposits from small and medium-sized enterprises in aggregate amounts above £25 billion must separate the banking entities holding those deposits from certain other operations. In response, LBG is reorganizing its core banking operations into a ring-fenced banking group (“RFB group”) and a non-ring-fenced banking group (“NRFB group”).⁶ The RFB group would include Lloyds Bank and BoS, as well as the majority of their current U.K.-based operations; the NRFB group would include LBCM and certain entities not permissible for ring-fenced banking entities (“RFBs”) to own.⁷ As part of this reorganization, LBG proposes that the banking operations conducted by the New York branches of Lloyds Bank and BoS transition to become the operations that

⁴ 12 U.S.C. § 1841 et seq.; see also 12 CFR 225.91.

⁵ See The Financial Service (Banking Reform) Act 2013.

⁶ In addition to the RFB group and NRFB group, LBG’s post-ring-fence organizational structure would include insurance and equity-investment subgroups.

⁷ Under the U.K. ring-fencing rules, RFBs are subject to restrictions that include general prohibitions on establishing branches or subsidiaries outside of the European Economic Area (“EEA”), owning substantial equity interests in entities organized outside of the EEA, dealing in investments as principal and in most derivative and other hedging products, and incurring financial exposure to certain financial companies such as credit institutions and investment firms.

would be conducted by the New York branch of LBCM.⁸ Following this migration of clients and assets to LBCM, Lloyds Bank and BoS would close their existing U.S. offices.

LBCM received its banking license from the Prudential Regulation Authority (“PRA”) on July 25, 2017, and has commenced banking operations in the United Kingdom. Once it is fully operational, LBCM will engage in business generally prohibited for RFBs, such as transactions that result in financial exposure to credit institutions, investment firms, and structured finance vehicles. In addition, LBCM will operate in jurisdictions where RFBs are generally prohibited from booking transactions or owning substantial equity interests.

The proposed U.S. branch of LBCM would engage in wholesale banking activities, including lending and related extensions of credit, money market activities, and foreign exchange and derivatives activities.

Under the IBA and Regulation K, in acting on an application by a foreign bank to establish a branch, the Board must consider whether (1) the foreign bank has furnished to the Board the information it needs to assess the application adequately, (2) the foreign bank and any foreign bank parent engage directly in the business of banking outside of the United States, and (3) the foreign bank and any foreign bank parent are subject to comprehensive supervision on a consolidated basis by their home

⁸ In connection with the reorganization of LBG, Lloyds America Securities Corporation, New York, New York, and its U.S. registered broker-dealer subsidiary, LSI, would become wholly owned subsidiaries of LBCM.

country supervisor.⁹ The Board also considers additional standards set forth in the IBA and Regulation K.¹⁰

As noted above, LBCM engages directly in the business of banking outside the United States. LBCM also has provided the Board with the information necessary to assess the application, through submissions that address the relevant issues.

⁹ 12 U.S.C. § 3105(d)(2); 12 CFR 211.24(c)(1). Regulation K provides that a foreign bank is subject to consolidated home country supervision if the foreign bank is supervised or regulated in such a manner that its home country supervisors receive sufficient information on the worldwide operations of the foreign bank (including the relationships of the bank to any affiliate) to assess the foreign bank's overall financial condition and compliance with law and regulation. 12 CFR 211.24(c)(1)(ii). In assessing this supervisory standard, the Board considers, among other indicia of comprehensive, consolidated supervision, the extent to which home country supervisors (i) ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide; (ii) obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise; (iii) obtain information on the dealings and relationships between the bank and its affiliates, both foreign and domestic; (iv) receive from the bank financial reports that are consolidated on a worldwide basis, or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis; and (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. No single factor is essential, and other elements may inform the Board's determination.

¹⁰ See 12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2)-(3). These standards include whether the bank's home country supervisor has consented to the establishment of the office; the financial and managerial resources of the bank, including the bank's experience and capacity to engage in international banking; whether the bank has procedures to combat money laundering, whether there is a legal regime in place in the home country to address money laundering, and whether the home country is participating in multilateral efforts to combat money laundering; whether the appropriate supervisors in the home country may share information on the bank's operations with the Board; whether the bank and its U.S. affiliates are in compliance with U.S. law; the needs of the community; and the bank's record of operation. In the case of a foreign bank that presents a risk to the stability of the United States, the Board also may take into account, to the extent appropriate, whether the home country of the foreign bank has adopted, or is making demonstrable progress towards adopting, an appropriate system of financial regulation for the financial system of such home country to mitigate such risk. 12 U.S.C. § 3105(d)(3)(E).

The Board previously has found that Lloyds Bank's predecessor was subject to comprehensive supervision on a consolidated basis by its home country supervisor.¹¹ LBCM is supervised by the PRA, which is part of the Bank of England. The PRA supervises U.K. banking groups on a consolidated basis, which includes a review of banking groups' management, governance, risk-management controls, compliance with capital and liquidity requirements, and resolvability. Under its supervisory authority, the PRA performs stress tests for certain banking groups, such as LBG, and regularly obtains information from the group in connection with those exercises. The Financial Conduct Authority ("FCA") regulates the market conduct of U.K. financial firms, including LBCM, and has supervisory responsibilities that include monitoring banks' compliance with anti-money-laundering ("AML") and counter-terrorism-financing ("CTF") requirements under U.K. law.

Based on all the facts of record, including the above information, it has been determined that LBCM is subject to comprehensive supervision on a consolidated basis by its home country supervisor.

The Board has also considered the financial and managerial and other applicable factors in this case. The PRA has no objections to the establishment of the proposed branch. LBCM has provided the Board with information regarding its financial condition, management, proposed activities, policies and procedures, and other information relevant to its current and proposed operations. LBCM's capital is in excess of the minimum levels that would be required by the Basel Capital Accord and is considered equivalent to capital that would be required of a U.S. banking institution.

LBCM has established controls and procedures for the proposed branch to ensure compliance with U.S. law and for its operations in general. Specifically, the proposed branch would operate under the same regulatory compliance framework as

¹¹ See Lloyds TSB Offshore Limited, 92 Federal Reserve Bulletin C62 (2006).

LBG's existing U.S. operations and would retain members of the risk, credit, and compliance teams that currently manage the U.S. operations of LBG. Taking into consideration LBCM's overall financial and managerial resources, financial and managerial factors are considered consistent with approval.

The United Kingdom is a member of the Financial Action Task Force and subscribes to its recommendations on measures to combat money laundering and international terrorism. In accordance with those recommendations, the United Kingdom has enacted laws and created legislative and regulatory standards to deter money laundering, terrorist financing, and other illicit activities. Money laundering is a criminal offense in the United Kingdom, and financial institutions are required to establish internal policies, procedures, and systems for the detection and prevention of money laundering throughout their worldwide operations. The FCA enforces those requirements with respect to U.K. banks, including LBCM. LBCM adheres to the same group-level policies, procedures, and standards regarding AML and CTF that apply to LBG and LBG's other subsidiaries. LBCM's compliance with applicable laws and regulations is monitored by governmental entities responsible for AML compliance, including the FCA.

LBCM has committed to make available to the Board such information on its operations and on those of any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the BHC Act, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law or otherwise, LBCM has committed to cooperate with the Board to obtain any necessary exemptions or waivers that might be required from third parties for disclosure of such information. In light of these commitments and subject to the condition described below, it has been determined that LBCM has provided adequate assurances of access to any necessary information that the Board may request.

Section 173 of the Dodd-Frank Wall Street Reform and Consumer Protection Act amended the IBA to provide that the Board may consider, for a foreign

bank that presents a risk to the stability of the United States financial system, whether the home country of the foreign bank has adopted, or is making demonstrable progress toward adopting, an appropriate system of financial regulation for the financial system of such home country to mitigate such risk.¹² Information relevant to the standard regarding risk to the stability of the United States financial system has also been reviewed. In particular, consideration has been given to (1) the relative size of LBCM in its home country; (2) the scope of LBCM's activities, including the type of activities it proposes to conduct in the United States and the potential for these activities to increase or transmit financial instability; and (3) the framework in place for supervising LBCM in its home jurisdiction. Taking into account these considerations, it has been determined that the proposed reorganization of LBG would result in a banking organization that would not add any new activities or financial stability risk to the United States financial system. Based on these and other factors, financial stability considerations for this proposal are consistent with approval.

On the basis of all the facts of record, and subject to the commitments made by LBCM as well as the terms and conditions set forth in this order, LBCM's application to establish a branch in New York, New York, is hereby approved by the Director of the Division of Supervision and Regulation, with the concurrence of the General Counsel, pursuant to authority delegated by the Board.¹³ Should any restrictions on access to information on the operations or activities of LBCM and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by LBCM and its affiliates with applicable federal statutes, the Board may require termination of any of LBCM's direct or indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by

¹² Pub. L. No. 111-203, 124 Stat. 1376, 1440 (2010), codified at 12 U.S.C. § 3105(d)(3)(E).

¹³ 12 CFR 265.7(d)(12).

LBCM with the commitments made in connection with this application and with the conditions in this order.¹⁴

By order, approved pursuant to authority delegated by the Board,
effective July 9, 2018.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

¹⁴ The Board’s authority to approve the establishment of branches parallels the continuing authority of the State of New York to license offices of a foreign bank. The Board’s approval of this application does not supplant the authority of the State of New York and its agent, the New York State Department of Financial Services (“NYDFS”), to license the proposed branch of LBCM in accordance with any terms and conditions that the NYDFS may impose.