



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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DIVISION OF SUPERVISION
AND REGULATION

SR 19-15

December 12, 2019

**TO THE OFFICER IN CHARGE OF SUPERVISION
AT EACH FEDERAL RESERVE BANK**

**SUBJECT: Revised Examination Guidelines for Representative Offices of
Foreign Banks**

Applicability: This guidance applies to U.S. representative offices of foreign banks supervised by the Federal Reserve.

Purpose

The Federal Reserve is issuing this letter to provide revised examination guidelines and to update the examination frequency for U.S. representative offices of foreign banks. The Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 extended the examination frequency for U.S. branches and agencies of foreign banking organizations (FBOs) with less than \$3 billion in total assets meeting certain criteria.¹ Because the overall supervisory strategy for a U.S. branch or agency of an FBO often incorporates a review of an institution's representative offices, the Federal Reserve is extending the examination frequency for all types of representative offices.

Examination Cycle Guidelines

U.S. representative offices of FBOs engage in diverse activities ranging from liaison, marketing, and research functions to operational activities such as loan production, administrative, and certain trading related functions. If the FBO has a U.S. banking presence, the Responsible Reserve Bank² should incorporate the representative office in the overall supervisory strategy for the entire U.S. operations of the FBO. U.S. representative offices should be examined every 24 months unless the FBO's U.S. operations and the type(s) of activities conducted at the representative office warrant more frequent examinations.³ However, whenever

¹ Refer to SR letter 18-7, "Updates to the Expanded Examination Cycle for Certain State Member Banks and U.S. Branches and Agencies of Foreign Banking Organizations," that announced the extension of the examination cycle for branches and agencies that meet certain criteria to 18-months. See also 12 U.S.C. 1820(d)

² Per SR letter 05-27, "Responsible Reserve Bank and Inter-District Coordination," the Responsible Reserve Bank for an FBO "typically will be the district where the Federal Reserve has the most direct involvement in the conduct of day-to-day supervision of the U.S. banking operations of the organization."

³ A de novo representative office of an FBO should be examined within 12 months of commencing operations.

possible, the representative office(s) should be examined concurrently with any related U.S. branches or agencies.

Documentation of Supervisory Findings and Rating

At the conclusion of each examination, examiners should document their findings and assign a rating. As discussed below, the type of documentation and rating should vary depending on the representative office's activities and the significance of supervisory concerns.

If the representative office engages in loan production, trading related functions, or performs risk management functions on behalf of another office (domestic or foreign), examiners should complete a Report of Examination that comments on the Risk Management, Operational Controls, and Compliance elements of the office's control environment. The report should include the assignment of Risk Management, Operational Controls, and Compliance component ratings and a composite rating based on the "1 through 5" rating scales for U.S. branches and agencies of FBOs in SR letter 00-14, "Enhancements to the Interagency Program for Supervising the U.S. Operations of Foreign Banking Organizations." The composite rating should take into consideration the individual component ratings for Risk Management, Operational Controls, and Compliance.

If the representative office engages only in traditional marketing and liaison activities, examiners do not need to complete a formal examination report. The examination of such an office generally would include a review of its activities, a general assessment of its management and oversight, and a review of its compliance with applicable laws and regulations, including any conditions placed on its operations or activities as part of the Board's approval of its establishment.⁴ In most cases, supervisory findings for a representative office engaging in traditional marketing and liaison activities can be documented in a memorandum to file and communicated to the representative office's management with a brief letter. If the examination raises significant supervisory concerns, examiners should document the concerns in the supervisory letter. In both situations, examiners should assign a composite rating for the office, using the "1 through 5" scale for the Compliance rating for U.S. branches and agencies of FBOs in SR letter 00-14.

Implementation

As of the date of this letter, Reserve Banks should implement a 24-month examination cycle and the other guidelines outlined in this letter for all U.S. representative offices of FBOs. The Federal Reserve maintains the authority to examine the U.S. representative offices of FBOs more frequently, and Reserve Banks should exercise this authority as necessary. Factors that

⁴ For a representative office that conducts private banking related activities, the examiner's compliance review must contain an evaluation of the representative office's due diligence practices and procedures, including a complete description of the representative office's role in soliciting and screening clients. See 12 C.F.R. 211.24(j) (requiring every representative office of a foreign bank operating in the U.S. to develop and provide for the continued administration of a program reasonably designed to assure and monitor compliance with the Bank Secrecy Act and its implementing regulations, including regulations requiring the implementation of a customer identification program).

may lead to an annual or more frequent examination cycle include, but are not limited to, the following:

- State law examination requirements;
- The relative importance and role of the office to the FBO's entire U.S. operations and the type(s) of activities conducted or the number of employees at a particular office; or
- Supervisory concerns about the condition of the foreign bank.

Reserve Banks should coordinate examinations with their state regulatory counterparts.

Reserve Banks should distribute this letter to Federal Reserve-supervised representative offices of foreign banks, as well as to appropriate supervisory and examination staff. Questions regarding this letter should be directed to the following staff: Kwayne Jennings, Manager, at (202) 452-3088; Mark Baker, Lead Financial Institution and Policy Analyst, at (202) 452-3798; or Tudor Rus, Lead Financial and Policy Analyst at (202) 475-6359. In addition, questions may be sent via the Board's public website.⁵

Michael S. Gibson
Director

Cross References:

- SR letter 18-7, "Updates to the Expanded Examination Cycle for Certain State Member Banks and U.S. Branches and Agencies of Foreign Banking Organizations"
- SR letter 05-27, "Responsible Reserve Bank and Inter-District Coordination"
- SR letter 00-14, "Enhancements to the Interagency Program for Supervising the U.S. Operations of Foreign Banking Organizations"

Supersedes:

- SR letter 97-9, "Revised Examination Guidelines for Representative Offices of Foreign Banks"

⁵ See <http://www.federalreserve.gov/apps/contactus/feedback.aspx>