



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

May 11, 2020

Mr. Jiang Liu
Partner
Morrison & Foerster LLP
250 West 55th Street
New York, New York 10019

Dear Mr. Liu:

This letter responds to your request on behalf of China Merchants Group Limited (“CMG”), Hong Kong Special Administrative Region, People’s Republic of China (“PRC”), a PRC state-owned, top-tier foreign banking organization, to be permitted to comply with the capital stress testing requirements and related reporting requirements on the FR Y-7 – Annual Report of Foreign Banking Organizations, through its subsidiary foreign banks.

Under Regulation YY, a foreign banking organization with total consolidated assets of more than \$100 billion and combined U.S. assets of less than \$100 billion must be subject to a capital stress testing regime on a consolidated basis by its home country supervisor that meets certain standards.¹ In addition, the FR Y-7 report requires a foreign banking organization subject to these requirements to certify whether it satisfies these requirements no later than four months after its fiscal year end. CMG is a foreign banking organization with total

¹ A foreign banking organization must be subject on a consolidated basis to a capital stress testing regime by its home-country supervisor and conduct such stress tests or be subject to a supervisory stress test and meet any minimum standards set by its home-country supervisor with respect to the stress tests. For foreign banking organization with average total consolidated assets of less than \$250 billion, the capital stress testing regime of its home-country supervisor must include: (i) a biennial supervisory capital stress test conducted by the foreign banking organization’s home-country supervisor or an annual evaluation and review by the foreign banking organization’s home-country supervisor of an internal capital adequacy stress test conducted by the foreign banking organization; and (ii) requirements for governance and controls of stress testing practices by relevant management and the board of directors (or equivalent thereof) of the foreign banking organization. See 12 CFR 252.146(b).

consolidated assets of more than \$100 billion and combined U.S. assets of less than \$100 billion, and, therefore, must comply with these requirements.

As a state-owned conglomerate with diverse holdings, CMG is not subject to a capital stress testing regime on a consolidated basis by regulators in the PRC. However, CMG controls two foreign banks with offices in the United States: China Merchants Bank Co., Ltd. (“CMB”), Shenzhen, PRC, and Wing Lung Bank Limited (“WLB”), Hong Kong, Hong Kong. CMB is subject to a stress testing regime administered by regulators in the PRC, and WLB is subject to a stress testing regime administered by regulators in Hong Kong, which would otherwise meet the requirements in Regulation YY.

The Board may permit a foreign banking organization to comply with the requirements of Regulation YY through a subsidiary.² In making this determination, the Board shall consider: (1) the ownership structure of the foreign banking organization, including whether the foreign banking organization is owned or controlled by a foreign government; (2) whether the action would be consistent with the purposes of this part; and (3) any other factors that the Board determines are relevant.³ This reservation of authority applies specifically to this circumstance in which the top-tier foreign banking organization is state or sovereign-owned and the lower-tier foreign banking organizations that conduct banking activities would otherwise meet the requirements under Regulation YY.

Acting pursuant to authority delegated by the Board and having considered all relevant facts, the Director of the Division of Supervision and Regulation, in consultation with the General Counsel, has determined that CMG may comply with the capital stress testing requirements and related reporting on the FR Y-7 report through its subsidiary foreign banks, CMB and WLB, provided that they continue to be subject to capital stress testing regimes on a consolidated basis by their respective home country supervisors that otherwise comply with Regulation YY. This action is based on all the facts of record, including the information discussed above, and the representations in your submission. Any material change in those facts or representations could affect this approval and should be communicated promptly to Board staff.

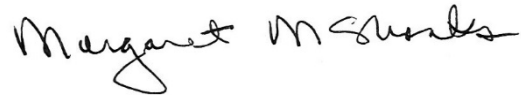
This action may be revised or revoked, based on evolving industry standards, evolving supervisory standards, changed circumstances at the firm, changes to applicable regulations, or other relevant factors.

² See 12 CFR 252.3(c).

³ See *id.*

Please contact Julie Anthony at (202) 475-6682, Rachel Grundmeier at (202) 973-7426, or Asad Kudiya at (202) 475-6358, all of the Legal Division, if you have any questions.

Very truly yours,

A handwritten signature in black ink that reads "Margaret McCloskey Shanks". The signature is written in a cursive style with a large, looped initial "M".

Margaret McCloskey Shanks
Deputy Secretary of the Board