



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

FEB 18 2016

Mr. Daniel L. Torbenson
Chief Counsel, U.S. Regulatory and Corporate Services
Royal Bank of Canada
3 World Financial Center
200 Vesey Street
New York, New York 10281

Dear Mr. Torbenson:

This letter is in response to your request, dated December 14, 2014, that the Board permit Royal Bank of Canada (“RBC”), Montreal, Canada, to hold its ownership interest in Moneris Solutions, Inc. (“Moneris U.S.”) outside of the intermediate holding company (“IHC”) established by RBC for purposes of compliance with Regulation YY.

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 RBC is a foreign banking organization with \$92.4 billion in total U.S. non-branch assets as of June 30, 2015. Accordingly, RBC is required to establish an IHC under Regulation YY.

The subsidiary for which RBC requests an exemption, Moneris U.S., is the U.S. subsidiary of a 50-50 Canadian joint venture between RBC and Bank of Montreal (“BMO”), 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

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).

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 RBC's IHC pro-forma assets (as reported in RBC's implementation plan, dated December 29, 2014).

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

Absent an exemption, RBC 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 RBC's and BMO's respective IHCs. RBC 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. RBC 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, RBC represents that RBC and BMO 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, RBC 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. RBC 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 RBC's activities, scope of operations, structure, and similar considerations, the Board has denied RBC's request to hold its ownership interest in Moneris U.S. outside of its IHC.

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. RBC and BMO each have a significant banking presence in the United States, and both RBC and BMO must comply with the IHC requirement. RBC is not prohibited by applicable home country law from transferring its interest in Moneris U.S. to its IHC. Although RBC 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 RBC, which would ensure that RBC 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.

For the reasons stated above, the Board has denied RBC's request for an exemption from Regulation YY's requirement to transfer its ownership interest in Moneris U.S. to its IHC.

Very truly yours,

(signed) Margaret McCloskey Shanks

Margaret McCloskey Shanks
Deputy Secretary of the Board

MMS

cc: Ms. Marilyn Arbuthnott
Federal Reserve Bank of New York