FRB Order No. 2018-01
January 3, 2018

FEDERAL RESERVE SYSTEM

Deutsche Pfandbriefbank AG
Unterschleissheim, Germany

Order Approving the Establishment of a Representative Office

Deutsche Pfandbriefbank AG ("PBB"), Unterschleissheim, Germany, a foreign bank within the meaning of the International Banking Act of 1978 ("IBA"), has applied under section 10(a) of the IBA[1] to establish a representative office in New York, New York. The IBA provides that a foreign bank must obtain the approval of the Board to establish a representative office 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 (*New York Daily News*, June 5, 2017). The time for submitting comments has expired, and the Board has considered all comments received.

Hypo Real Estate Holding GmbH ("HRE Holding"), Munich, Germany, owns 20 percent of PBB's outstanding shares and is the largest individual shareholder of PBB. The German government is the sole owner of HRE Holding.[2] No other shareholder owns more than 5 percent of the shares of PBB.

PBB, with total assets of approximately $68 billion, is the 15th largest bank in Germany by asset size.[3] PBB engages primarily in commercial real estate and public

[1] 12 U.S.C. § 3107(a).

[2] The German Financial Market Stabilization Fund, which is under the control of the German Federal Ministry of Finance, owns 100 percent of HRE Holding.

[3] Asset and ranking data are as of September 30, 2017, and are based on the exchange rate as of that date.

investment finance through five offices in Germany. PBB operates branches in France, Spain, Sweden, and the United Kingdom. PBB has two nonbank subsidiaries in the United States, Hypo Real Estate International Trust I and Hypo Real Estate International LLCI.[4]

The proposed representative office would act as a liaison between PBB on the one hand and its existing and potential customers, U.S. service providers, and business contacts on the other. The proposed representative office would also engage in other representational activities, including soliciting business, conducting research, and performing preliminary steps in connection with lending, including assembling credit information.[5] These activities would be limited to facilitating the origination of commercial real estate financing transactions.

Under the IBA and Regulation K, in acting on an application by a foreign bank to establish a representative office, 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 the United States, and (3) the foreign bank and any foreign bank parent are subject to comprehensive supervision on a consolidated basis by their

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[4] PBB plans to dissolve these subsidiaries in the near future.

[5] A representative office may engage in representational and administrative functions in connection with the banking activities of a foreign bank, including soliciting new business for the foreign bank, conducting research, acting as a liaison between the foreign bank's head office and customers in the United States, performing preliminary and servicing steps in connection with lending, and performing back-office functions. A representative office may not contract for any deposit or deposit-like liability, lend money, or engage in any other banking activity. 12 CFR 211.24(d)(1).

home country supervisor.[6] The Board also considers additional standards set forth in the IBA and Regulation K.[7]

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

PBB is subject to the direct prudential supervision of the European Central Bank ("ECB") within the context of the Single Supervisory Mechanism ("SSM") because the total value of its assets exceeds €30 billion. The SSM is a system of financial supervision composed of the ECB and the national competent authorities of the participating member states in which specific tasks are distributed between the ECB and

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[6] 12 U.S.C. § 3107(a)(2); 12 CFR 211.24(d)(2). In assessing the supervision 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.

[7] See 12 U.S.C. § 3105(d)(3)–(4); 12 CFR 211.24(c)(2). 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; 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).

each national competent authority. Under the SSM, the ECB has direct prudential supervisory responsibility for PBB, while Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin"), as the relevant national competent authority for PBB, retains supervisory authority over all other areas, including consumer protection and the prevention of money laundering and terrorist financing.

The methodologies and standards that underpin the day-to-day supervision of large European Union banking organizations by the ECB under the SSM regulatory framework are aimed at achieving a consistent supervisory approach across the European Union. The Board has previously found that other European banking organizations supervised by the SSM and the relevant national competent authority are subject to comprehensive consolidated supervision.[8] The system of supervision applied to all large banks within the European Union has not changed materially since it was last considered by the Board.

Based on all the facts of record, including the above information, it has been determined that PBB is subject to comprehensive supervision on a consolidated basis by the ECB and BaFin acting through the SSM.

The Board also has considered the following additional standards set forth in the IBA and Regulation K: (1) 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; (2) the financial and managerial resources of the bank; (3) whether the appropriate supervisors in the home country may share information on

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[8] See ING Bank N.V., FRB Order 2017-27 (October 20, 2017); Board letter to Rita Milazzo dated August 1, 2017 (comprehensive consolidated supervision for Banco Bilbao Vizcaya Argentaria, S.A.); Board letter to Andrea Tokheim dated July 24, 2017 (comprehensive consolidated supervision for Bank of Ireland Group plc); and Unione di Banche Italiane, S.p.A., FRB Order 2016-01 (January 19, 2016).

the bank's operations with the Board; and (4) whether the bank's home country supervisor has consented to the establishment of the office.[9]

Germany 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, Germany 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 Germany, and credit institutions are required to establish internal policies, procedures, and systems for the detection and prevention of money laundering. BaFin enforces these requirements with respect to German banks, including PBB. PBB has policies and procedures to comply with these laws and regulations that are monitored by governmental entities, including BaFin, responsible for anti-money-laundering compliance.

PBB appears to have the experience and capacity to support the proposed representative office. In addition, PBB has established controls and procedures for the proposed representative office to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations generally. Taking into consideration PBB's record of operations in its home country, its overall financial resources, and its standing with its home country supervisors, financial and managerial factors are consistent with approval of the proposed representative office.

PBB has committed to make available to the Board such information on the operations of PBB and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act of 1956, as amended,[10] and other applicable federal law. To the extent that providing such information to the Board may be prohibited by law or otherwise, PBB has committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for the disclosure of such information. In addition, subject to

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[9] See 12 U.S.C. § 3105(d)(3)–(4); 12 CFR 211.24(c)(2).

[10] 12 U.S.C. § 1841 et seq.

certain conditions, the ECB and BaFin may share information on PBB's operations with other supervisors, including the Board. In light of these commitments and other facts of record, and subject to the condition described below, it has been determined that PBB has provided adequate assurances of access to any necessary information that the Board may request. In addition, the ECB has no objection to the establishment of the proposed representative office.

The Board has also considered whether PBB's proposal would present a risk to the stability of the United States. The proposal would not appear to affect financial stability in the United States. In particular, the absolute and relative size of PBB in its home country; the scope of PBB's activities, including the types of activities it proposes to conduct in the United States and the potential for those activities to increase or transmit financial instability; and the framework in place for supervising PBB in its home country do not appear to create significant risk to the financial stability of the United States. Based on these and other factors, financial stability considerations in this proposal are consistent with approval.

On the basis of all the facts of record and subject to commitments made by PBB, PBB's application to establish the proposed representative office 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.[11] Should any restrictions on access to information on the operations or activities of PBB and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by PBB or its affiliates with applicable federal statutes, the Board may require termination of any of PBB's direct or indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by PBB with the conditions imposed in this order and the commitments made

[11] 12 CFR 265.7(d)(12).

to the Board in connection with this application.[12] For purposes of this action, these commitments and conditions are deemed to be conditions imposed by the Board in writing in connection with this decision and, as such, may be enforced in proceedings under applicable law.

By order, approved pursuant to authority delegated by the Board, effective December 21, 2017.

Ann E. Misback (Signed)
Ann E. Misback
Secretary of the Board

[12] The Board's authority to approve the establishment of the proposed representative office 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 or its agent, the New York State Department of Financial Services, to license the proposed office of PBB in accordance with any terms or conditions that they may impose.