

FEDERAL RESERVE SYSTEM

Euroclear Bank
Brussels, Belgium

Order Approving Establishment of a Representative Office

Euroclear Bank ("Bank"), Brussels, Belgium, a foreign bank within the meaning of the International Banking Act ("IBA"), has applied under section 10(a) of the IBA (12 U.S.C. § 3107(a)) to establish a representative office in New York, New York. The Foreign Bank Supervision Enhancement Act of 1991 ("FBSEA"), which amended 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 submit comments, has been published in a newspaper of general circulation in New York (*The New York Post*, August 31, 2000). The time for filing comments has expired, and all comments have been considered.

Bank is a newly formed Belgian bank that was created to operate the Euroclear System (the "System"), a clearance and settlement system for international securities. The System is currently operated by the Brussels office of the Morgan Guaranty Trust Company of New York ("MGT") on behalf of Euroclear Clearance System plc ("ECS plc"), a United Kingdom company owned by a consortium of 119 financial institutions. ECS plc owns, directly or indirectly, 95 percent of the shares of Bank, and more than 1200 other participants in the System own the balance. The parent of MGT, J.P. Morgan & Co. Incorporated, entered into an agreement with ECS plc whereby MGT's role as operator of the System will cease on or about December 31, 2000. At that time, the assets and

liabilities of MGT's Brussels office related to the operation of the System will be transferred to Bank, and Bank will become the System's operator. Most MGT employees who currently have duties related to the operations of the System will become employees of Bank. Bank will not engage in the full range of international banking activities, but only in the clearance and settlement of international securities transactions. Bank also intends to establish representative offices in Tokyo, Sao Paolo, Singapore, Hong Kong, and London.

The proposed representative office will engage in liaison, marketing and support activities, including the solicitation of new clients and the promotion of Bank products and services. These are the same functions currently performed by certain employees of MGT's New York office.

In acting on an application to establish a representative office, the IBA and Regulation K provide that the Board shall take into account whether the foreign bank engages directly in the business of banking outside the United States and has furnished to the Board the information it needs to assess the application adequately. The Board also shall take into account whether the foreign bank and any foreign bank parent is subject to comprehensive supervision or regulation on a consolidated basis by its home country supervisor.^{1/} The Board may take into

^{1/} See 12 U.S.C. § 3107(a)(2); 12 CFR 211.24(d)(2). In assessing this standard, the Board considers, among other factors, the extent to which the 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 with and relationship between the bank and its affiliates, both foreign and domestic; (iv) receive from the bank financial reports that are consolidated on a worldwide basis,

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account additional standards set forth in the IBA and Regulation K.^{2/} The Board previously has stated that the standards that apply to the establishment of a branch or agency need not in every case apply to the establishment of a representative office, because representative offices do not engage in a banking business and cannot take deposits or make loans.^{3/}

As noted above, Bank will engage directly in the business of banking outside the United States through its banking operations in Belgium. Bank also has provided the Board with the information necessary to assess the application through submissions that address the relevant issues.

With respect to home country supervision of Bank, the Board has considered the following information. The Belgian Banking and Finance Commission (“BBFC”) and the National Bank of Belgium (“NBB”) are the primary supervisors of Bank.^{4/} The Board previously has determined, in connection with

^{1/}(...continued)

or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis; (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. These are indicia of comprehensive consolidated supervision; no single factor is essential and other elements may inform the Board's determination.

^{2/} See 12 U.S.C. § 3105(d)(3) and (4); 12 CFR 211.24(c)(2).

^{3/} See 58 Federal Register 6348, 6351 (1993). See also *Banco de la Ciudad de Buenos Aires*, 85 Federal Reserve Bulletin 647 (1999); *Agricultural Bank of China*, 83 Federal Reserve Bulletin 617 (1997); *Citizens National Bank*, 79 Federal Reserve Bulletin 805 (1993).

^{4/} The National Bank of Belgium has primary responsibility for oversight of
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applications involving other Belgian banks, that those banks were subject to comprehensive consolidated supervision by the BBFC.^{5/} Although Bank is a de novo institution, and the BBFC has not previously had primary supervisory authority over the operations of the System, the BBFC intends to supervise Bank in substantially the same manner as the banks previously reviewed in the orders cited above. Based on all the facts of record, the Board has determined that factors relating to the supervision of Bank by its home country supervisor are consistent with approval of the proposed representative office.

The Board has taken into account the additional standards set forth in the IBA and in Regulation K.^{6/} The BBFC has granted Bank approval to establish the proposed office. With respect to the financial and managerial resources of Bank, taking into consideration the record of operations by Bank's predecessor in its home country, Bank's overall financial resources, and its standing with its home country supervisor, the Board has determined that financial and managerial considerations are consistent with approval. In addition, Bank appears to have the experience and capacity to support the proposed office and has established controls and procedures in the representative office to ensure compliance with

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payment and clearing systems in Belgium. The BBFC is the primary banking regulator in Belgium, however, and would have full supervisory authority over the activities of Bank. The BBFC has indicated that it works closely with the NBB and that both entities share information with respect to supervisory matters.

^{5/} See *Antwerpse Diamantbank, N.V.*, 85 Federal Reserve Bulletin 830 (1999); *KBC Bank, N.V.*, 85 Federal Reserve Bulletin 832 (1999).

^{6/} See 12 U.S.C. § 3105(d)(3) and (4); 12 CFR 211.24(c)(2).

applicable U.S. law, as well as controls and procedures for its worldwide operations generally.

With respect to access to information, the Board has reviewed the restrictions on disclosure in relevant jurisdictions in which Bank operates and has communicated with relevant government authorities about access to information. Bank and ECS plc have committed to make available to the Board such information on the operations of Bank and any affiliate of Bank that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act, and other applicable federal law. To the extent that the provision of such information may be prohibited or impeded by law or otherwise, Bank and ECS plc have committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties in connection with disclosure of certain information. In addition, subject to certain conditions, the BBFC may share information on Bank'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, the Board has concluded that Bank has provided adequate assurances of access to any necessary information the Board may request.

On the basis of all the facts of record, and subject to the commitments made by Bank, as well as the terms and conditions set forth in this order, the Board has determined that Bank's application to establish a representative office in New York should be, and hereby is, approved. Should any restrictions on access to information on the operations or activities of Bank or any of its affiliates subsequently interfere with the Board's ability to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require or recommend termination of any of Bank's direct or indirect activities in the United

States. Approval of this application also is specifically conditioned on Bank's compliance with the commitments made in connection with this application and with the conditions in this order.^{7/} The commitments and conditions referred to above are conditions imposed in writing by the Board in connection with its decision and may be enforced in proceedings against Bank and its affiliates under applicable law.

By order of the Board of Governors,^{8/} effective December 21, 2000.
(Signed)

Robert deV. Frierson
Associate Secretary of the Board

^{7/} The Board's authority to approve the establishment of the proposed 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 Banking Department, to license the proposed office of Bank in accordance with any terms or conditions that the New York State Banking Department may impose.

^{8/} Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Meyer and Gramlich. Absent and not voting: Governor Kelley.