

## FEDERAL RESERVE SYSTEM

HBOS Treasury Services plc  
London, United Kingdom

### Order Approving Establishment of a Branch

HBOS Treasury Services plc (“Bank”), London, United Kingdom, a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under section 7(d) of the IBA (12 U.S.C. § 3105(d)) to establish a branch in New York, New York. The Foreign Bank Supervision Enhancement Act of 1991, which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish a branch in the United States.

Notice of the application, affording interested persons an opportunity to comment, has been published in newspapers of general circulation in New York, New York (*New York Post*, July 10, 2003). The time for filing comments has expired, and all comments have been considered.

Bank, with total assets of \$272 billion, is a wholly owned subsidiary of The Governor and Company of the Bank of Scotland (“Bank of Scotland”), Edinburgh, United Kingdom. Bank of Scotland, in turn, is a wholly owned subsidiary of HBOS plc (“HBOS”), also in Edinburgh, which is the top tier holding company for the HBOS group. HBOS, with consolidated assets of \$631 billion, is the third largest banking organization in the United Kingdom.<sup>1</sup> The shares of HBOS plc are publicly traded, and no person holds more than 5 percent of its voting shares. Bank provides global treasury services and serves as the main funding source for HBOS. HBOS is primarily

---

<sup>1</sup> Asset data are as of June 30, 2003.

engaged in banking, insurance, and investment and has operations throughout the world. HBOS, Bank of Scotland, and Bank are qualifying foreign banking organizations pursuant to Regulation K.

Bank currently has no operations in the United States. Its parent, Bank of Scotland, operates a branch in New York and representative offices in Chicago, Houston, Los Angeles, Minneapolis, Seattle, and Boston and engages through nonbank subsidiaries in a range of financial activities. Bank's proposed New York branch would assume the treasury functions of Bank of Scotland's New York branch, which include deposit taking, issuance of high-denomination certificates of deposit, purchases of medium-term notes, and interbank lending and borrowing.

In order to approve an application by a foreign bank to establish a branch in the United States, the IBA and Regulation K require the Board to determine that the foreign bank applicant engages directly in the business of banking outside of 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 (12 U.S.C. § 3105(d)(2); 12 C.F.R. 211.24).<sup>2</sup> The

---

<sup>2</sup> 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 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

Board may also take into account additional standards as set forth in the IBA and Regulation K (12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)-(3)).

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

With respect to supervision by home country authorities, the Board previously has determined, in connection with applications involving other banks in the United Kingdom, including Bank of Scotland, that those banks were subject to home country supervision on a consolidated basis.<sup>3</sup> Bank is, and Bank of Scotland remains, supervised by the Financial Services Authority (“FSA”) on substantially the same terms and conditions as those other banks. Based on all the facts of record, it has been determined that Bank and Bank of Scotland are subject to comprehensive supervision on a consolidated basis by their home country supervisor.

The Board has also taken into account the additional standards set forth in section 7 of the IBA and Regulation K (*see* 12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)-(3)). The FSA has no objection to the establishment of the proposed branch.

The United Kingdom’s risk-based capital standards are consistent with those established by the Basel Capital Accord. Bank’s capital is in excess of the minimum levels that would be required by the Basel Capital Accord and

---

comprehensive, consolidated supervision. No single factor is essential, and other elements may inform the Board’s determination.

<sup>3</sup> *See, e.g., The Royal Bank of Scotland*, 89 Federal Reserve Bulletin 386 (2003); *Abbey National Treasury Services plc*, 87 Federal Reserve Bulletin 750 (2001); *see also Bank of Scotland*, 84 Federal Reserve Bulletin 230 (1998).

is considered equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank also are considered consistent with approval, and Bank appears to have the experience and capacity to support the proposed branch. In addition, Bank has established controls and procedures for the proposed branch to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations generally.

The United Kingdom is a member of the Financial Action Task Force and subscribes to its recommendations on measures to combat money laundering. In accordance with these recommendations, the United Kingdom has enacted laws and created legislative and regulatory standards to deter money laundering. Money laundering is a criminal offense in the United Kingdom, and financial institutions are required to establish internal policies, procedures, and systems for the detection and prevention of money laundering throughout their worldwide operations. Bank has policies and procedures to comply with these laws and regulations. Bank's compliance with applicable laws and regulations is monitored by Bank's internal auditors and the FSA.

With respect to access to information about Bank's operations, the Board has reviewed the restrictions on disclosure in relevant jurisdictions in which Bank operates and has communicated with relevant government authorities regarding access to information. Bank and its ultimate parent, HBOS, have committed to make available to the Board such information on the operations of Bank and any of its affiliates 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 to the Board may be prohibited by law or otherwise, Bank and its ultimate parent have committed to cooperate with the

Board to obtain any necessary consents or waivers that might be required from third parties for disclosure of such information. In addition, subject to certain conditions, the FSA 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, it has been determined that Bank has provided adequate assurances of access to any necessary information that the Board may request.

On the basis of all the facts of record, and subject to the commitments made by Bank and its ultimate parent, as well as the terms and conditions set forth in this order, Bank's application to establish a branch is hereby approved.<sup>4</sup> Should any restrictions on access to information on the operations or activities of Bank and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require termination of any of Bank's direct or indirect activities in the United States, or in the case of any such operation licensed by the Office of the Comptroller of the Currency, recommend termination of such operation. Approval of this application also is specifically conditioned on compliance by Bank with the commitments made in connection with this application and with the conditions in this order.<sup>5</sup> The commitments and conditions referred to above are

---

<sup>4</sup> Approved by the Director of the Division of Banking Supervision and Regulation, with the concurrence of the General Counsel, pursuant to authority delegated by the Board.

<sup>5</sup> The Board's authority to approve the establishment of the proposed branch parallels the continuing authority of the Office of the Comptroller of the Currency to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the Office of the Comptroller of

conditions imposed in writing in connection with this decision and may be enforced in proceedings under 12 U.S.C. § 1818 against Bank and its affiliates.

By order, approved pursuant to authority delegated by the Board, effective November 7, 2003.

(signed)

---

Robert deV. Frierson  
Deputy Secretary of the Board

---

the Currency to license the proposed office of Bank in accordance with any terms or conditions that it may impose.