

FEDERAL RESERVE SYSTEM

RBC Investor Services Bank S.A.  
Esch-sur-Alzette, Luxembourg

Order Approving Establishment of a Representative Office

RBC Investor Services Bank S.A. (“Investor Bank”), Esch-sur-Alzette, Luxembourg, a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under section 10(a) of the IBA<sup>1</sup> to establish a representative office 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 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 Times*, December 4, 2012). The time for filing comments has expired, and all comments received have been considered.

Investor Bank, with total consolidated assets of approximately \$18.3 billion, is a global custodian bank organized under the laws of Luxembourg primarily serving funds located outside the United States.<sup>2</sup> Its banking activities are related to its overall custody-related activities. Investor Bank, with approximately \$1.0 trillion in assets under management, offers institutional investors worldwide an integrated array of products and services, including global custody, funds administration, securities lending, shareholder services, analytics, and other related investor services. Investor Bank accepts deposits that are incidental to facilitating liquidity for the trading, investing, and settlement activities of its clients. It has subsidiaries and branches in Ireland, France, Spain, Switzerland, Italy, Belgium, Singapore, and Hong Kong.

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<sup>1</sup> 12 U.S.C. § 3107(a).

<sup>2</sup> Asset data are as of June 30, 2013.

Investor Bank's parent company, Royal Bank of Canada ("RBC" – consolidated assets of \$827 billion), Montreal, Canada, is Canada's largest commercial bank,<sup>3</sup> providing personal and commercial banking, wealth management, insurance, investment banking, and transaction processing services on a global basis.<sup>4</sup> RBC owns 100 percent of Investor Bank through a wholly-owned holding company, Royal Bank Holdings Inc., Toronto, Canada ("RBH"). RBC's custodial and funds management operations are conducted mainly through its Canadian subsidiary RBC Investor Services Trust, Investor Bank, and their affiliates and branches around the world.<sup>5</sup> The Luxembourg Commission de Surveillance du Secteur Financier ("CSSF") is the supervisor of Investor Bank.

The proposed representative office would market Investor Bank's products and services to customers in the United States and engage in certain liaison activities. The office would provide information concerning the bank's products and services, such as custody, fund administration, and transfer agency services, to U.S. fund managers who have or are seeking to establish offshore investment funds, primarily in Ireland and Luxembourg. Specific activities of the representative office would include identifying new business opportunities, responding to requests for proposals, and making presentations regarding available products and services to existing and prospective

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<sup>3</sup> Asset and ranking data are as of July 31, 2013.

<sup>4</sup> In the United States, RBC operates branches in New York City, Miami, and Portland (Oregon), agencies in Dallas and Houston, and representative offices in San Francisco, Houston, Wilmington (Delaware), and Seattle. In March 2012, RBC sold its retail banking operations in the United States to PNC Financial Services Group, Inc., but retained a bank subsidiary, RBC Bank Georgia, N.A., Atlanta, Georgia, which primarily maintains a securities portfolio comprised of mortgage-backed, asset-backed, and other debt securities. In addition, the bank has several nonbanking subsidiaries in the United States engaged in asset management and capital market activities.

<sup>5</sup> RBC Investor Services Trust provides services to clients only in Canada, while services provided to the rest of the world are conducted through Investor Bank. RBC Investor Services Trust is the largest custodian and fund administrator in Canada, and is supervised by Canada's Office of the Superintendent of Financial Institutions ("OSFI").

clients. The proposed representative office would also engage in other activities permissible for a representative office.<sup>6</sup>

In acting on an application under the IBA and Regulation K 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 of the United States, and (3) the foreign bank and any foreign bank parent are subject to comprehensive supervision on a consolidated basis by their home country supervisor.<sup>7</sup> The Board also takes into account additional standards set forth in the IBA and Regulation K.<sup>8</sup> The Board will consider that the supervision

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<sup>6</sup> A representative office may engage in representational and administrative functions in connection with the banking activities of the 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).

<sup>7</sup> 12 U.S.C. § 3107(a)(2); 12 CFR 211.24(d)(2). In applying the supervision standard, the Board considers, among other indicia of comprehensive, consolidated supervision, 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 the 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; 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.

<sup>8</sup> *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

standard has been met if it determines that the applicant bank is subject to a supervisory framework that is consistent with the activities of the proposed representative office, taking into account the nature of such activities. This is a lesser standard than the comprehensive, consolidated supervision standard applicable to proposals to establish branch or agency offices of a foreign bank. The Board considers the lesser standard sufficient for approval of representative office applications because representative offices may not engage in banking activities.<sup>9</sup> This application has been considered under the lesser standard.

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

With respect to supervision by home country authorities, the Board has considered that Investor Bank is supervised by the CSSF. In connection with an application from another Luxembourg banking organization, Cedel Bank, S.A., to establish a representative office in the United States, the Board previously has determined that Cedel Bank was subject to a supervisory framework by the predecessor to the CSSF, the Institut Monetaire Luxembourgeois, consistent with the limited representative office standard.<sup>10</sup> Since that determination, the supervision of banks in Luxembourg by the CSSF has progressed in line with other countries in the European Union. Based on all the facts of record, including the supervisory regime applicable to Investor Bank and the

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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. The Board may also, in the case of a foreign bank that presents a risk to the stability of the United States, take into account, to the extent appropriate, whether the home country of the foreign bank has adopted, or is making demonstrable progress toward 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).

<sup>9</sup> See 12 CFR 211.24(d)(2).

<sup>10</sup> See Cedel Bank, S.A., 82 Federal Reserve Bulletin 591 (1996).

fact that Investor Bank is seeking to establish a representative office, it has been determined that Investor Bank is subject to a supervisory framework that is consistent with the activities of the proposed representative office, taking into account the nature of such activities.

RBC's home country supervisor is the OSFI. With respect to supervision of RBC, the Board previously has determined in connection with applications to establish U.S. operations that several Canadian banking organizations supervised by the OSFI, including RBC, are subject to comprehensive supervision on a consolidated basis.<sup>11</sup> Since the last Board determination, the OSFI has enhanced its supervisory framework by improving requirements in the areas of liquidity, risk management, stress testing, funding diversification, and corporate governance. Based on all the facts of record, the Board has concluded that RBC continues to be subject to comprehensive supervision on a consolidated basis by its home country supervisor.

The additional standards set forth in section 7 of the IBA and Regulation K also have been taken into account.<sup>12</sup> The CSSF and the OSFI have no objection to the establishment of the proposed representative office.

With respect to the financial and managerial resources of Investor Bank, taking into consideration Investor Bank's record of operations in its home country, its overall financial resources, and its standing with its home country supervisor, financial and managerial factors are consistent with approval of the proposed representative office. Investor Bank appears to have the experience and capacity to support the proposed representative office and 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.

Luxembourg is a member of the Financial Action Task Force ("FATF") and subscribes to the FATF's recommendations regarding measures to combat money

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<sup>11</sup> See Bank of Montreal, 97 Federal Reserve Bulletin 24 (2011); Royal Bank of Canada, 94 Federal Reserve Bulletin C45 (2008).

<sup>12</sup> See *supra* note 5.

laundering and international terrorism. In accordance with these recommendations, Luxembourg 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 Luxembourg, and financial services businesses are required to establish internal policies, procedures, and systems for the detection and prevention of money laundering throughout their worldwide operations. Investor Bank has policies and procedures in place to comply with these laws and regulations, and these policies and procedures are monitored by governmental entities responsible for anti-money-laundering compliance.

With respect to access to information about Investor Bank's operations, the restrictions on disclosure in relevant jurisdictions in which Investor Bank operates have been reviewed, and relevant governmental authorities have been communicated with regarding access to such information. Investor Bank has committed to make available to the Board such information on the operations of Investor Bank 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, and other applicable federal law. To the extent that providing such information to the Board may be prohibited by law or otherwise, Investor Bank 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 certain conditions, the CSSF may share information on Investor 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 Investor Bank has provided adequate assurances of access to any necessary information that the Board may request.

Information relevant to the standard regarding risk to the stability of the United States financial system has also been reviewed. In particular, consideration has been given to the absolute and relative size of Investor Bank in its home country, the scope of Investor Bank'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 Investor Bank in its home country. Based on these and other factors, financial stability considerations in this proposal are consistent with approval.

Based on the foregoing and all the facts of record, Investor Bank's application to establish the proposed representative office is hereby 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>13</sup> Should any restrictions on access to information on the operations or activities of Investor Bank and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Investor Bank or its affiliates with applicable federal statutes, the Board may require termination of any of Investor Bank's direct or indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by Investor Bank with the conditions imposed in this order and the commitments made to the Board in connection with this application.<sup>14</sup> For purposes of this action, these commitments and conditions are deemed to be conditions imposed in writing by the Board 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 17, 2013.

*Margaret McCloskey Shanks (signed)*

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Margaret McCloskey Shanks  
Deputy Secretary of the Board  
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<sup>13</sup> 12 CFR 265.7(d)(12).

<sup>14</sup> 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 Department of Financial Services, to license the proposed office of Investor Bank in accordance with any terms or conditions that it may impose.