

FEDERAL RESERVE press release



For immediate release

June 28, 1999

The Federal Reserve Board announced today its approval of the application of Deutsche VerkehrsBank AG, Frankfurt am Main, Germany, to establish a representative office in New York, New York.

Attached is the Board's Order relating to this action.

Attachment

FEDERAL RESERVE SYSTEM

Deutsche VerkehrsBank AG
Frankfurt am Main, Germany

Order Approving Establishment of a Representative Office

Deutsche VerkehrsBank AG ("Bank"), Frankfurt am Main, Germany, 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, 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, New York (*The Daily News*, October 12, 1998). The time for filing comments has expired, and the Board has considered the application and all comments received.

Bank, with assets of \$7.3 billion,¹ was established in 1923. Bank's largest shareholder, Deutsche Genossenschaftsbank ("DG Bank"), a bank that serves the cooperative banking system and promotes the not-for-profit housing industry in Germany, owns 64 percent of Bank's shares.² Verband der Sparda-Banken e.V.

¹Data are as of December 31, 1998.

²DG Bank maintains two offices in the United States, a branch in New York and an agency in Atlanta. DG Bank is owned by four shareholders, two of which hold more than

(continued...)

("Sparda Banks"), an association of 17 German savings banks, owns 14 percent of Bank's shares. The remaining shares of Bank are widely held, with no single shareholder owning more than 10 percent of the shares.

Bank serves as a specialized bank for transportation sector customers in DG Bank's cooperative financial network. Bank provides planning, investment, financing, and currency exchange services for transportation-industry-related projects, and engages in the financing and collection of transportation receivables in the freight traffic business. It also engages in foreign exchange, securities, and derivatives trading activities. In addition, Bank functions as a central bank to the Sparda Banks by providing payment system, advisory, and certain clearing services. Bank has several branches in Germany; a branch in London, England; and a representative office in Switzerland. Bank has six German subsidiaries that engage in leasing, money transmission/exchange, real estate development, and transportation-related activities.

²(...continued)

25 percent of DG Bank's shares. Norddeutsche Genossenschaftliche Beteiligungs-Aktiengesellschaft ("Norddeutsche") and Degenos Erste Beteiligungs-Gesellschaft ("Degenos") each own approximately 30 percent of Bank's shares. Norddeutsche, a former regional central bank in Germany's cooperative banking system that transferred its business to DG Bank, is widely held, with no single shareholder owning more than 2 percent of shares. Degenos, a holding company, has three shareholders, each of which serves as a regional central bank. Two of these shareholders, Südwestdeutsche Genossenschafts-Zentralbank AG, and Westdeutsche Genossenschafts-Zentralbank AG, each owns more than 25 percent of Degenos's shares.

The proposed representative office would act as a liaison with existing and potential customers of Bank. It would solicit new business, conduct research, assemble credit information, make property inspections and appraisals, secure title information, prepare applications for loans, and solicit investors to purchase such loans.

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 whether the foreign bank 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 is subject to comprehensive supervision or regulation on a consolidated basis by its home country supervisor (12 U.S.C. § 3107(a)(2); 12 C.F.R. 211.24(d)(2)).³ The Board also may take into account additional standards as set forth in the IBA and

³In 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 comprehensive, consolidated supervision. No single factor is essential, and other elements may inform the Board's determination.

Regulation K (12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)).

As noted above, DG Bank and Bank engage 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 Germany, that those banks were subject to home country supervision on a consolidated basis.⁴ DG Bank and Bank are supervised by the German regulators on substantially the same terms and conditions as those banks. Based on all the facts of record, the Board has determined that DG Bank and Bank are subject to comprehensive supervision and regulation on a consolidated basis by their home country supervisors.

The Board also has 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)). In this regard, the German Federal Banking Supervisory Office has no objection to the establishment of the proposed representative office.

⁴See *Deutsche Bank AG*, 85 Federal Reserve Bulletin ____ (1999); *Westdeutsche ImmobilienBank*, 85 Federal Reserve Bulletin 346 (1999); *Südwestdeutsche Landesbank Girozentrale*, 83 Federal Reserve Bulletin 937 (1997). There has been no material change in the manner of supervision of German banks since those determinations.

With respect to the financial and managerial resources of Bank, taking into consideration Bank's record of operation in its home country, its overall financial resources, and its standing with its home country supervisors, the Board also has determined that financial and managerial factors are consistent with approval of the proposed representative office. 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.

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 parents 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 of 1956, as amended, and other applicable federal law. To the extent that the provision of such information may be prohibited by law, Bank and its parents 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 German supervisors 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 concludes 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 and its parents and the terms and conditions set forth in this order, the Board has determined that Bank's application to establish the representative office should be, and hereby is, approved. 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 or its affiliates' direct or indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by Bank and its parents with the commitments made in connection with this application, and with the conditions in this order.⁵ 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 under 12 U.S.C. § 1818 against Bank and its affiliates.

⁵The 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 and the New York State Banking Department ("Department") to license the proposed office of Bank in accordance with any terms or conditions that the Department may impose.

By order of the Board of Governors,⁶ effective
June 28, 1999.

(signed)

Robert deV. Frierson
Associate Secretary of the Board

⁶Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Meyer, Ferguson, and Gramlich.