

FEDERAL RESERVE press release

For immediate release

September 27, 1999

The Federal Reserve Board announced today its approval of the application of Caixa Geral de Depósitos S.A., Lisbon, Portugal, to establish a state-licensed branch in New York, New York.

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

Attachment

FEDERAL RESERVE SYSTEM

Caixa Geral de Depósitos S.A.
Lisbon, Portugal

Order Approving Establishment of a Branch

Caixa Geral de Depósitos S.A. ("Bank"), Lisbon, Portugal, 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 state-licensed branch 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 branch 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 New York Times*, April 7, 1999). The time for filing comments has expired, and all comments have been considered.

Bank, with assets of approximately \$57 billion as of year-end 1998, is the largest banking organization in Portugal. Founded in 1876 to serve as the tax collector for the State of Portugal, Bank is now a full-service financial institution that is wholly owned by the Portuguese State. Within Portugal, Bank has one bank subsidiary, several nonbank subsidiaries, and more than 500 branches. Outside Portugal, Bank has branches in France, Luxembourg, and Cape Verde and representative offices in several countries. Bank also controls three banks in Spain, two in Brazil, and one in each of Mozambique and France. One of

Bank's Brazilian subsidiaries, Banco Bandeirantes S.A., has a branch in New York and a representative office in Miami. Bank has no other banking or nonbanking operations in the United States.

Through the proposed branch, Bank intends to provide services to companies seeking to do business with a Portuguese bank in New York and to banks in Portuguese-speaking countries that do not have a U.S. presence. The branch also would provide U.S.-dollar products and services to Bank's affiliates.

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 the United States and has furnished to the Board the information it needs to assess the application adequately. The Board generally also must determine that the foreign bank is subject to comprehensive supervision or regulation on a consolidated basis by its home country supervisor.^{1/} The Board also may take into account additional standards as set forth in the IBA and Regulation K.^{2/}

Bank engages directly in the business of banking outside the United States through its banking operations in Portugal and elsewhere. Bank also has provided the Board with the information necessary to assess the application through submissions that address the relevant issues.

^{1/} See 12 U.S.C. § 3105(d)(2).

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

Regulation K provides that a foreign bank will be considered to be subject to comprehensive supervision or regulation on a consolidated basis if the Board determines that the bank is supervised and regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the bank, including its relationship to any affiliates, to assess the bank's overall financial condition and its compliance with law and regulation.^{3/} The Board has made the following findings with regard to the supervision of Bank.

Supervision of Portuguese credit institutions, including Bank, is the responsibility of the Bank of Portugal, Portugal's central bank. The Bank of Portugal requires Bank to submit a semiannual consolidated financial statement and an annual report on a consolidated and nonconsolidated basis. Bank also must submit monthly and/or quarterly information on solvency and liquidity, risk exposure, administrative organization, and foreign branches. The Bank of Portugal conducts on-site

^{3/} See 12 C.F.R. 211.24(c)(1). 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 comprehensive, consolidated supervision; no single factor is essential and other elements may inform the Board's determination.

inspections of Bank and its domestic financial subsidiaries.^{4/} Previous examinations of Bank have included reviews of risk concentration, risk management, credit quality, credit approval systems, internal audit procedures, accounting control, and capital ratios.

Control of Bank's operations, implemented through borrower, counterparty, issuer, and country limits, is subject to oversight by Bank's head office. Meetings between head office management and management of Bank's subsidiaries and foreign offices occur on a regular basis, and the head office also monitors the budgetary outlay for these operations. Bank's central auditing department annually prepares an auditing plan to which all offices and subsidiaries must conform. The results of all internal audits are provided to the Bank of Portugal in an annual report on Bank's internal control systems, which is supplemented by ongoing contact between Bank's management and staff of the Bank of Portugal.

Bank's total exposure to its affiliates or to any particular client or group of connected clients may not exceed a certain percentage of Bank's capital. Such large exposures must be reported to the Bank of Portugal.

^{4/} Foreign subsidiaries of Bank are directly supervised by the competent authorities in their respective host states. Bank's domestic insurance subsidiary is supervised by the Portuguese Insurance Institute, which is required by law to submit to the Bank of Portugal any information necessary for the consolidated supervision of Bank.

An annual audit is conducted by independent external auditors on Bank's activities and policies, both domestic and foreign. In addition, Bank has a statutory auditor that issues a monthly opinion on Bank's accounts. These external audit reports are made available to the Bank of Portugal, and external auditors are under a statutory duty to report to the Bank of Portugal any facts that might constitute a serious breach of the law, affect the continuous functioning of the credit institution, or lead the auditor to express reservations on or to refuse to certify the accounts.

Bank also is subject to an annual inspection conducted by the Tribunal de Contas, an independent court that is part of the judicial branch of the Portuguese government. The Tribunal de Contas reviews and audits state-owned companies and state holdings in private limited companies. The aim of the Tribunal de Contas is to safeguard against any impropriety involving the use of state funds and to guarantee the application of sound management practices and internal control procedures.

Based on all the facts of record, the Board concludes that Bank is subject to comprehensive supervision on a consolidated basis by its home country supervisor.

The Board has taken into account the additional standards set forth in the IBA and in Regulation K.^{5/} Bank has provided the Board with the information necessary to assess the application through submissions that address the relevant issues.

^{5/} See 12 U.S.C. § 3105(d)(3), (4); 12 C.F.R. 211.24(c)(2).

In addition, the Bank of Portugal has granted Bank approval to establish the proposed branch.

Portugal's risk-based capital standards conform to E.U. capital standards which are consistent with those established by the Basle Capital Accord. Bank's capital exceeds the minimum levels that would be required by the Basle Capital Accord and is considered equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank also are 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 in the branch to ensure compliance with applicable U.S. law, and controls and procedures for its worldwide operations generally.

Finally, 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 has 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 has 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 Bank of Portugal 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 and the terms and conditions set forth in this order, the Board has determined that Bank's application to establish a state-licensed branch 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.^{6/} The commitments and

^{6/} 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 and 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.

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, its offices, and its affiliates under applicable law.

By order of the Board of Governors,^{1/} effective September 27, 1999.

(signed)

Robert deV. Frierson
Associate Secretary of the Board

^{1/} Voting for this action: Chairman Greenspan and Governors Kelley, Meyer, Ferguson, and Gramlich.