

FEDERAL RESERVE SYSTEM

Banque Nationale de Paris
Paris, France

Paribas
Paris, France

Order Approving Notice to Engage in Nonbanking Activities

Banque Nationale de Paris (“BNP”), a bank holding company within the meaning of the Bank Holding Company Act (“BHC Act”), and Paribas, a foreign banking organization subject to the BHC Act (collectively, “Notificants”), have requested the Board’s approval under section 4(c)(8) of the BHC Act (12 U.S.C. § 1843(c)(8)) and section 225.24 of the Board’s Regulation Y (12 C.F.R. 225.24) to retain their ownership interest in Paribas Corporation, Paribas Asset Management, Inc., and Paribas Futures, Inc., all in New York, New York (collectively, “Companies”), and thereby engage in the following activities:

- (1) Extending credit and servicing loans, in accordance with section 225.28(b)(1) of Regulation Y (12 C.F.R. 225.28(b)(1));
- (2) Asset management, servicing, and collection activities related to extending credit, and acquiring debt in default, in accordance with section 225.28(b)(2) of Regulation Y (12 C.F.R. 225.28(b)(2));
- (3) Providing financial and investment advisory services, in accordance with section 225.28(b)(6) of Regulation Y (12 C.F.R. 225.28(b)(6));
- (4) Providing securities brokerage, riskless principal, private placement, futures commission merchant, and other agency transactional services, in accordance with section 225.28(b)(7) of Regulation Y (12 C.F.R. 225.28(b)(7));
- (5) Underwriting and dealing in government obligations and money market instruments that state member banks may underwrite or deal in under 12 U.S.C. §§ 24 and 335 (“bank-eligible securities”), and engaging as principal in investing and trading activities, in

accordance with section 225.28(b)(8) of Regulation Y (12 C.F.R. 225.28(b)(8));

- (6) Underwriting and dealing in, to a limited extent, all types of debt and equity securities that a member bank may not underwrite or deal in, except for ownership interests in open-end investment companies (“bank-ineligible securities”); and
- (7) Acting as the general partner of certain private investment funds that invest only in assets in which a bank holding company is permitted to invest.

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (64 Federal Register 59,772 (1999)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 4(c)(8) of the BHC Act.

Companies are wholly owned subsidiaries of Paribas. Paribas previously controlled Companies in reliance on grandfather rights established by section 8(c) of the International Banking Act. BNP acquired its indirect ownership interest in Companies in August 1999, as a result of its acquisition through a public tender offer of 65.2 percent of the voting shares of Paribas.¹ Paribas’s grandfather rights under section 8(c) of the IBA terminated on consummation of BNP’s

¹ BNP received the Board’s approval under section 4(c)(9) of the BHC Act to retain temporarily its indirect ownership interest in Companies pending submission of this notice. See Letter from Robert deV. Frierson, Associate Secretary of the Board, to Paul E. Glotzer, Esq., dated July 28, 1999. After August 1999, BNP acquired an additional 31.1 percent of the voting shares of Paribas through a second public tender offer. BNP has indicated that it intends to exercise its rights under French law to acquire the remaining 3.7 percent of Paribas’ voting shares and thereby acquire all of Paribas’ voting shares.

acquisition of Paribas.² BNP and Paribas have not merged with each other and remain separate foreign banking organizations.

Paribas, with consolidated total assets of approximately \$299 billion, is the fifth largest banking organization headquartered in France and the 27th largest in the world. Paribas operates branches in New York, New York, and Chicago, Illinois; agencies in Los Angeles, California, and Houston, Texas; and representative offices in San Francisco, California; Atlanta, Georgia; and Dallas, Texas.³

Before its acquisition of Paribas, BNP had consolidated total assets of approximately \$365 billion, and was the third largest banking organization headquartered in France and the 22nd largest banking organization in the world.⁴ In light of its acquisition of Paribas, BNP has consolidated total assets of approximately \$655 billion and is the fourth largest banking organization in the world. BNP directly operates branches in New York, New York; Los Angeles and San Francisco, California; and Chicago, Illinois; agencies in Miami, Florida, and Houston, Texas; and a representative office in Dallas, Texas. BNP also controls

² Paribas also controls several other subsidiaries that engaged in nonbanking activities in the United States pursuant to grandfather rights established by section 8(c) of the IBA. BNP and Paribas must conform all the activities currently conducted by Paribas in reliance on section 8(c) of the IBA to the requirements of the BHC Act within two years of the date that BNP acquired control of Paribas. See 12 U.S.C. § 3106(c)(2).

³ Because BNP and Paribas continue to operate in the same corporate form, BNP's acquisition of Paribas did not result in the establishment by BNP of any additional branches, agencies or representative offices in the United States for purposes of section 211.24 of the Board's Regulation K (12 C.F.R. 211.24). BNP has provided the Board notice of its acquisition of control of Paribas as required by section 211.24(a)(4)(i) of Regulation K (12 C.F.R. 211.24(a)(4)(i)).

⁴ Asset data are as of June 30, 1999, and ranking data are as of December 31, 1998, and reflect exchange rates then in effect.

BancWest Corporation, San Francisco, California, which itself controls Bank of the West, San Francisco, California, and First Hawaiian Bank, Honolulu, Hawaii.

Paribas Corporation currently engages in bank-ineligible securities activities in the United States. BNP also engages in bank-ineligible securities activities in the United States through its section 20 subsidiary, BNP Capital Markets, LLC, New York, New York (“BNP Capital”). BNP has stated that it currently intends to operate BNP Capital and Paribas Corporation as separate corporate entities, although it may decide to merge the two entities at some point in the future. Accordingly, Notificants have applied to hold Paribas Corporation pursuant to section 4(c)(8) of the BHC Act. BNP Capital and Paribas Corporation are, and would continue to be, registered as broker-dealers with the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934 (15 U.S.C. § 78a et seq.). Accordingly, both are, and would continue to be, subject to the recordkeeping and reporting obligations, fiduciary standards, and other requirements of the Securities Exchange Act of 1934 and the SEC.

Underwriting and Dealing in Bank-Ineligible Securities

The Board has determined that, subject to the prudential framework of limitations established in previous decisions to address the potential for conflicts of interests, unsound banking practices, or other adverse effects, underwriting and dealing in bank-ineligible securities are so closely related to banking as to be a proper incident thereto within the meaning of section 4(c)(8) of the BHC Act.⁵

⁵ See Canadian Imperial Bank of Commerce, et al., 76 Federal Reserve Bulletin 158 (1990); J.P. Morgan & Co. Incorporated, et al., 75 Federal Reserve Bulletin 192 (1989), aff'd sub nom. Securities Industry Ass'n v. Board of Governors of the Federal Reserve System, 900 F.2d 360 (D.C. Cir. 1990); Citicorp, et al., 73 Federal Reserve Bulletin 473 (1987), aff'd sub nom. Securities Industry Ass'n v. Board of Governors of the Federal Reserve System, 839 F.2d 47 (2d Cir. 1988), cert. denied, 486 U.S. 1059 (1988) (collectively, “Section 20 Orders”).

The Board also has determined that underwriting and dealing in bank-ineligible securities is consistent with section 20 of the Glass-Steagall Act (12 U.S.C. § 377), provided that the company engaged in the activities derives no more than 25 percent of its gross revenues from underwriting and dealing in bank-ineligible securities over a two-year period.⁶ Notificants have committed that they will conduct their bank-ineligible securities underwriting and dealing activities subject to the 25-percent revenue limitation and the prudential limitations previously established by the Board. As long as BNP Capital and Paribas Corporation remain separate corporate entities, each will be independently subject to the 25-percent revenue limit on underwriting and dealing in bank-ineligible securities. As a condition of this order, BNP, Paribas, and Paribas Corporation are required to conduct their bank-ineligible securities activities subject to the Operating Standards for section 20 subsidiaries.⁷

Other Activities Approved by Regulation or Order

The Board previously has determined by regulation or order that engaging in credit and credit-related activities; financial and investment advisory activities; securities brokerage, riskless principal, private placement, futures commission merchant, and other agency transactional services; and bank-eligible securities underwriting and dealing, are closely related to banking for purposes of

⁶ See Section 20 Orders. Compliance with the revenue limitation shall be calculated in accordance with the method stated in the Section 20 Orders, as modified by the Order Approving Modifications to the Section 20 Orders, 75 Federal Reserve Bulletin 751 (1989), and 10 Percent Revenue Limit on Bank-Ineligible Activities of Subsidiaries of Bank Holding Companies Engaged in Underwriting and Dealing in Securities, 61 Federal Register 48,953 (1996); and Revenue Limit on Bank-Ineligible Activities of Subsidiaries of Bank Holding Companies Engaged in Underwriting and Dealing in Securities, 61 Federal Register 68,750 (1996) (collectively, “Modification Orders”).

⁷ 12 C.F.R. 225.200.

section 4(c)(8) of the BHC Act.⁸ In addition, the Board previously has determined by order that private investment fund activities are permissible for bank holding companies when conducted within certain limits.⁹ Notificants have committed that these activities will be conducted in accordance with the Board's regulations and prior Board decisions relating to these activities.

Proper Incident to Banking Standard

In order to approve the proposal, the Board also must determine that the proposed activities are a proper incident to banking, that is, that performance of the proposed activities by Notificants "can reasonably be expected to produce benefits to the public . . . that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."¹⁰ As a part of its evaluation of these factors, the Board considers the financial condition and managerial resources of the notificants and their subsidiaries and the effect the transaction would have on those resources.¹¹

⁸ See 12 C.F.R. 225.28(b)(1), (2), (6), (7), and (8).

⁹ See Dresdner Bank AG, 84 Federal Reserve Bulletin 361 (1998). The private investment fund activities in which Notificants propose to engage consist of serving as the investment adviser to and the general partner of, and holding and placing equity interests in, certain investment funds that invest only in securities and other instruments that Notificants would be permitted to hold directly under the BHC Act ("private investment funds"). The investment funds would include limited partnerships and similar investment vehicles such as limited liability companies. Notificants also propose to act as a commodity pool operator for private investment funds organized as commodity pools that invest in assets which BNP would be permitted to hold directly under the BHC Act.

¹⁰ See 12 U.S.C. § 1843(c)(8).

¹¹ See 12 C.F.R. 225.26.

The Board has carefully considered the financial resources of BNP and Paribas and notes that the capital ratios of both satisfy applicable risk-based standards under the Basle Capital Accord, and are considered equivalent to the capital levels that would be required of a United States banking organization. The Board also has reviewed the capitalization of BNP, Paribas, and Paribas Corporation in accordance with the standards set forth in the Section 20 Orders and finds the capitalization of each to be consistent with approval. The Board's determination is based on all the facts of record, including Notificants' projections of the volume of bank-ineligible securities underwriting and dealing activities proposed to be conducted by Paribas Corporation.

The Board also has carefully reviewed the managerial resources of the organizations involved in light of all the facts of record, including confidential examination reports concerning BNP Capital and Paribas Corporation, and the Board's supervisory experience with both BNP and Paribas. As noted above, BNP currently controls BNP Capital, which engages in underwriting and dealing in bank-ineligible securities pursuant to the Board's Section 20 Orders. The Board previously has determined that BNP and BNP Capital have established appropriate policies and procedures to ensure compliance with the Board's Section 20 Orders, including computer, audit, and accounting systems, internal risk management controls, and the necessary operational and managerial infrastructure.¹² Notificants have stated that the policies and procedures in place at BNP and BNP Capital to ensure compliance with the Board's Section 20 Orders and Operating Standards will be implemented at Paribas Corporation. On the basis of these and all other facts of record, including the commitments provided in this case and the proposed managerial structure and risk management systems of Paribas Corporation, the

Board has concluded that financial and managerial considerations are consistent with approval.

The Board also has carefully considered the competitive effects of the proposed transaction under section 4 of the BHC Act. As noted above, Paribas currently controls Companies. To the extent that BNP and Companies offer different types of nonbanking products, the proposed acquisition would result in no loss of competition. In those markets in which the nonbanking product offerings of BNP and Companies overlap, such as securities brokerage, underwriting and dealing in bank-eligible and bank-ineligible securities, and investment advisory activities, there are numerous existing and potential competitors. Consummation of the proposal, therefore, would have a de minimis effect on competition in the market for those services. Based on all the facts of record, the Board has concluded that the proposal would not result in any significantly adverse competitive effects in any relevant market.

As noted above, Notificants have committed that Paribas Corporation will conduct its bank-ineligible securities underwriting and dealing activities in accordance with the prudential framework established by the Board's Section 20 Orders. Under the framework and conditions established in this order and the Section 20 Orders, and based on all the facts of record, the Board concludes that the proposed bank-ineligible underwriting and dealing activities are not likely to result in significantly adverse effects. Similarly, the Board concludes that the conduct of the other proposed nonbanking activities by Notificants under the framework and conditions established in this order, prior orders, and Regulation Y is not likely to result in any significantly adverse effects.

¹² See Letter from Kenneth R. Binning, Federal Reserve Bank of San Francisco, to Larry B. Sobin, dated December 2, 1998.

The Board also expects that the proposed acquisition would provide added convenience to the customers of BNP and Paribas. Notificants have indicated that the transaction would strengthen the position of the combined organization in French, European, and international financial markets, and would allow the combined organization to diversify its sources of revenue. In addition, there are public benefits to be derived from permitting capital markets to operate so that bank holding companies can make potentially profitable investments in nonbanking companies and from permitting banking organizations to allocate their resources in the manner they consider to be most efficient when such investments are consistent, as in this case, with the relevant considerations under the BHC Act.

Based on all the facts of record, the Board has determined that performance of the proposed activities by Notificants, under the framework established in this and prior decisions, can reasonably be expected to produce public benefits that outweigh any reasonably expected adverse effects of the proposal. Accordingly, the Board has determined that performance of the proposed activities by Notificants is a proper incident to banking for purposes of section 4(c)(8) of the BHC Act.

Conclusion

Based on all the facts of record, the Board has determined that the notice should be, and hereby is, approved, subject to all the terms and conditions in this order and the Section 20 Orders, as modified by the Modification Orders. The Board's approval of this proposal extends only to activities conducted within the limitations of those orders and this order, including the Board's reservation of authority to establish additional limitations to ensure that the activities of Notificants are consistent with safety and soundness, avoidance of conflicts of interests, and other relevant considerations under the BHC Act. Underwriting and dealing in any manner other than as approved in this order and the Section 20

Orders (as modified by the Modification Orders) is not within the scope of the Board's approval and is not authorized for Notificants or Paribas Corporation.

In reaching its conclusion, the Board has considered all the facts of record in light of the factors that the Board is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by Notificants with all the commitments made in connection with this notice, and on the Board's receiving access to information on the activities or operations of Notificants and any of their affiliates that the Board determines to be appropriate to determine and enforce compliance by Notificants and their affiliates with applicable federal statutes. The Board's approval also is subject to all the conditions set forth in this order and in Regulation Y, including those in sections 225.7 and 225.25(c) of Regulation Y (12 C.F.R. 225.7 and 225.25(c)), and to the Board's authority to require such modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, and to prevent evasion of, the provisions of the BHC Act and the Board's regulations and orders issued thereunder. These commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

This transaction shall not be consummated later than three months after the effective date of this order unless such period is extended for good cause by the Board or by the Federal Reserve Bank of San Francisco, acting pursuant to delegated authority.

By order of the Board of Governors,¹³ effective December 20, 1999.

(signed)

Robert deV. Frierson
Associate Secretary of the Board

¹³ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Kelley, Meyer, and Gramlich.