

FEDERAL RESERVE SYSTEM

Nacional Financiera, S.N.C.
Mexico City, Mexico

Order Approving Establishment of a Representative Office

Nacional Financiera, S.N.C. (“Bank”), Mexico City, Mexico, 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 Los Angeles, California. 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 Los Angeles, California (*Los Angeles Daily Journal*, October 12, 2004). The time for filing comments has expired, and all comments have been considered.

Bank, with total consolidated assets of approximately \$19.9 billion,¹ is the largest development bank in Mexico. Bank primarily funds loans by Mexican banks and other financial intermediaries to private-sector participants in financing programs established by Bank to further economic policies of the Mexican government. As financing agent for the Mexican government, Bank also disburses loan proceeds provided by multilateral agencies and foreign governments to entities in Mexico’s public and private sectors. Bank is wholly owned by the Mexican government and has branches the United Kingdom and the Cayman Islands and a representative office in Japan. Bank engages in securities activities in the United States through a subsidiary.

¹ Unless otherwise indicated, data are as of September 30, 2004.

The proposed representative office would act as a liaison with existing and potential customers of Bank and with multilateral organizations, U.S. government agencies, and other entities that provide funding for development projects in Mexico. The office would solicit new business, conduct research, and perform preliminary and servicing steps in connection with lending. It would provide information to U.S. businesses seeking investment opportunities in Mexico through programs offered by the Bank and to Mexican businesses regarding products and services offered under funding initiatives of the U.S. government.

Under the IBA and Regulation K, in acting on an application by a foreign bank to establish a representative office, the Board must consider whether the foreign bank (1) engages directly in the business of banking outside of the United States; (2) has furnished to the Board the information it needs to assess the application adequately; and (3) is subject to comprehensive supervision on a consolidated basis by its home country supervisor (12 U.S.C. § 3107(a)(2); 12 C.F.R. 211.24(d)(2)).² The Board also may consider additional standards set forth in the IBA and Regulation K (12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)). The Board will consider that the supervision standard has been met where it determines that the applicant bank is subject to a supervisory framework

² In assessing the supervision 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.

that is consistent with the activities of the proposed representative office, taking into account the nature of such activities.³ This is a lesser standard than the comprehensive, consolidated supervision standard applicable to applications 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 (12 C.F.R. 211.24(d)(2)).

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 has considered the following information. The National Banking and Securities Commission (“CNBV”), a branch of the Ministry of Finance and Public Credit, is the primary regulatory and supervisory authority for Mexican banks, including commercial and development banks, and, as such, is the home country supervisor of Bank. The Board previously has considered the supervisory regime in Mexico for commercial banks.⁴ The CNBV’s supervision and regulation of development banks in Mexico is substantially similar to that of commercial banks, and there is no difference with respect to capital adequacy requirements and limits on credit concentrations, large credit exposures, and foreign currency exposure. Bank is

³ See, e.g., Jamaica National Building Society, 88 Federal Reserve Bulletin 59 (2002); RHEINHYP Rheinische Hypothekenbank AG, 87 Federal Reserve Bulletin 558 (2001); see also Promstroybank of Russia, 82 Federal Reserve Bulletin 599 (1996); Komerčni Banka, a.s., 82 Federal Reserve Bulletin 597 (1996); Commercial Bank “Ion Tiriac”, S.A., 82 Federal Reserve Bulletin 592 (1996).

⁴ See, e.g., BBVA Bancomer, S.A., 89 Federal Reserve Bulletin 146 (2003); Banpais S.A., 81 Federal Reserve Bulletin 204 (1995).

subject to on-site examinations by the CNBV at least annually, and Bank must submit annual audited financial statements and monthly unaudited financial statements.

Bank is authorized by the Bank of Mexico to participate in certain financial markets, including foreign exchange markets, and is required to file a number of financial reports with the Bank of Mexico related to its trading activity, capital position, and counterparty positions. Bank also is subject to supervision by the Secretariat of Public Function, which monitors for public corruption and governmental transparency, and the Superior Auditor of the Federation, which audits the disbursement of public funds.

Based on all the facts of record, it has been determined that 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.

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)) have also been taken into account. The CNBV has authorized Bank to establish the proposed office.

With respect to the financial and managerial resources of Bank, taking into consideration Bank's record of operations in its home country, its overall financial resources, and its standing with its home country supervisors, 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, as well as controls and procedures for its worldwide operations generally.

Mexico is a member of the Financial Action Task Force and subscribes to its recommendations regarding measures to combat money

laundering and international terrorism. In accordance with these recommendations, Mexico has enacted laws and created legislative and regulatory standards to deter money laundering, terrorist financing, or other illicit activities. Money laundering is a criminal offense in Mexico, and credit 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, and these are monitored by governmental entities responsible for anti-money-laundering compliance.

With respect to access to information on Bank's operations, the restrictions on disclosure in relevant jurisdictions in which Bank operates have been reviewed and relevant government authorities have been communicated with regarding access to information. Bank has 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 to the Board may be prohibited 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 for disclosure of such information. In addition, subject to certain conditions, the CNBV 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 the terms and conditions set forth in this order, Bank's

application to establish the representative office is hereby approved.⁵ 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 obtain information 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 and indirect activities in the United States. 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.⁶ 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 against Bank and its affiliates under 12 U.S.C. § 1818.

By order, approved pursuant to authority delegated by the Board,
effective February 11, 2005.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

⁵ 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.

⁶ The Board's authority to approve the establishment of the proposed representative office parallels the continuing authority of the State of California to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the State of California or its agent, the California Department of Financial Institutions ("Department"), to license the proposed office of Bank in accordance with any terms or conditions that the Department may impose.