



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 2, 1997

Randal K. Quarles, Esq.  
Davis Polk & Wardwell  
450 Lexington Avenue  
New York, NY 10017

Dear Mr. Quarles:

This is in response to the request of Lyonnaise des Eaux ("Lyonnaise"), Nanterre, France, for a temporary exemption under section 4(c)(9) of the Bank Holding Company Act ("BHC Act") that would permit it to conduct its activities as if it were a "qualified foreign banking organization" ("QFBO") as defined in Regulation K. Lyonnaise is the holding company of a large European group whose main businesses consist of water, energy technologies, waste management, construction, and communications. On June 19, 1997, Lyonnaise merged with Compagnie de Suez ("Suez"), Paris, France, the holding company of a large commercial, industrial, and financial group. Lyonnaise is the surviving legal entity in the merger and has been renamed Suez Lyonnaise des Eaux ("Suez Lyonnaise").

Suez Lyonnaise is subject to the BHC Act because, by merging with Suez, Lyonnaise acquired a controlling interest in Générale de Banque ("Générale"), Brussels, Belgium, which operates a branch in New York, New York. Suez Lyonnaise is not a QFBO and is not eligible for the exemptions available to foreign banking organizations with such status. In the absence of relief under section 4(c)(9), either Générale would be required to cease its U.S. banking operations immediately, or Suez Lyonnaise would be precluded from acquiring any company that is engaged in activities that are impermissible for a U.S. bank holding company.

On January 19, 1996, the Board granted Suez an exemption under section 4(c)(9) to permit it to make nonbank acquisitions as if it were a QFBO while its two subsidiary banks were "de-banking" or otherwise conforming their operations to the BHC Act.<sup>1/</sup> Suez has divested one of the subsidiary banks, Banque Indosuez. The other bank, Générale, was granted a two-year period ending January 19, 1998, to terminate its banking office

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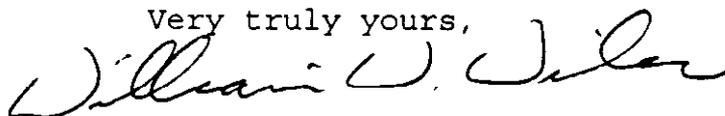
<sup>1/</sup> See Board letter dated Jan. 19, 1996, to Kimberly A. Lynch, Esq.; Michael Bradfield, Esq.; and Randal K. Quarles, Esq.

Limitations on nonbanking activities in the United States

4. During the exemption period, the New Group will make no acquisitions of companies with operations in the United States that would not be permissible for a QFBO.
5. In limitation of the foregoing, at no time during the exemption period will the New Group (other than Générale in connection with the de-banking process and as approved by the Board): (i) acquire directly or indirectly 5 percent or more of the voting shares of any U.S. company engaged in activities that consist of banking, securities, insurance, or other "financial activities" within the meaning of section 211.23(f)(5)(iii)(B) of Regulation K (collectively, "financial activities"), or (ii) acquire directly or indirectly 25 percent or more of the voting shares of any foreign company engaged in the United States in Financial Activities.
6. At the end of the exemption period, the New Group will have conformed its activities so as to be in compliance with all applicable U.S. banking laws.

Based on all the facts of record, the Board has determined to permit Suez Lyonnaise and its subsidiaries to make acquisitions, subject to the conditions and limitations specified herein, of commercial and industrial companies as if Suez Lyonnaise were a "qualifying foreign banking organization." This determination is subject to modification by the Board if new facts are presented that change the public interest factors the Board has considered. The commitments relied upon in reaching this decision are conditions imposed in writing by the Board in connection with its findings and decision and may be enforced in proceedings under applicable law.

Very truly yours,



William W. Wiles  
Secretary of the Board

cc: John S. Cassidy  
Federal Reserve Bank of New York

in the United States or otherwise to conform its operations to the requirements of the BHC Act. Suez Lyonnaise has requested that it be granted the same exemption as Suez during the period in which Générale is conforming its operations with the BHC Act.

Suez Lyonnaise is predominantly a foreign organization and the merger of Lyonnaise and Suez occurred substantially outside the United States for primarily non-U.S. business reasons. Under these circumstances, the Board believes it would be in the public interest to limit the effects of U.S. regulation on Suez Lyonnaise, provided that the exemption does not grant a material competitive advantage to Suez Lyonnaise or have other adverse effects in the United States. To avoid the potential for such adverse effects, Suez Lyonnaise, has made the following commitments to the Board:

Corporate and Operational Separation in the United States and Abroad

1. Générale will be held and managed as a separate corporate entity from Suez Lyonnaise and from each company as to which Suez Lyonnaise directly or indirectly owns or controls 25 percent or more of any class of voting securities (Suez Lyonnaise and each such subsidiary are herein referred to collectively as the "New Group"). In particular, no steps will be taken in product marketing programs (including advertising) to identify the New Group's operations in the United States as being related to Générale's operations in the United States.

Operational Separation in the United States

2. In the United States, there will be no cross-marketing by the New Group of products or services offered by Générale or its subsidiaries; the New Group will not engage in joint business ventures with Générale, share customer lists, or otherwise exchange information in the United States, and shall not coordinate or consult with Générale on investment or other policies in the United States (except in respect of compliance with the requirements of the requested exemption).
3. The New Group will not provide banking or other services for Générale in the United States. The New Group shall not make credit available in any form (other than existing arm's-length credit arrangements which will continue until expiration in accordance with their existing terms) for the purpose of financing Générale's operations in the United States.