

FEDERAL RESERVE SYSTEM

National Agricultural Cooperative Federation  
Seoul, Republic of Korea

Order Approving Establishment of a Representative Office

National Agricultural Cooperative Federation (“NACF”), Seoul, Korea, a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under section 10(a) of the IBA<sup>1</sup> 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 comment, has been published in a newspaper of general circulation in New York, New York (*New York Post*, March 8, 2010). The time for filing comments has expired, and all comments received have been considered.

NACF, with total consolidated assets of approximately \$251 billion, and banking business assets of approximately \$168 billion, is a special-purpose organization created by the Korean government that acts as an umbrella organization for Korean agricultural cooperatives.<sup>2</sup> NACF conducts a variety of financial and nonfinancial activities, including banking, insurance, agricultural marketing, agricultural supply, and education and support services. NACF conducts banking activities through an unincorporated banking unit, which would rank as one of the largest banks in Korea, by asset and deposit size. The proposed representative office would be NACF’s only direct

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<sup>1</sup> 12 U.S.C. § 3107(a).

<sup>2</sup> Asset and ranking data are as of March 31, 2010.

office outside Korea.<sup>3</sup> NACF offers a broad range of financial services, including the provision of specialized agricultural and general commercial credit and banking services and the sale of life insurance. NACF is entirely owned by its member agricultural cooperatives, which include 1,102 regional cooperatives and 82 commodity cooperatives, representing nearly all of the farmers in Korea. No shareholder, directly or indirectly, owns 5 percent or more of the voting shares of NACF.

The proposed representative office would act as liaison between NACF and its U.S. customers and would engage in other representational activities, including soliciting purchasers of loans, parties to contract with NACF for the servicing of NACF loans, and other banking business (except for deposits or deposit-type liabilities); and conducting research.<sup>4</sup> The proposed office would also solicit loans in principal amounts of \$250,000 or more and, in connection with those loans, would assemble credit information, make property inspections and appraisals of property, secure title information, prepare loan applications, and make recommendations.

In acting on an application under the IBA and Regulation K by a foreign bank to establish a representative office, the Board must consider whether (1) the foreign bank has furnished to the Board the information it needs to assess the application adequately; (2) the foreign bank and any foreign bank parent engage directly in the business of banking outside of the United States; and (3) the foreign bank and any foreign bank parent are subject to comprehensive supervision on a consolidated basis by their

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<sup>3</sup> Through a Korean nonbanking subsidiary, NACF has a U.S. subsidiary that engages primarily in agricultural market research, marketing Korean agricultural products, and other nonbanking activities. NACF has similar establishments in Tokyo and Beijing.

<sup>4</sup> A representative office may engage in representational and administrative functions in connection with the banking activities of the foreign bank, including soliciting new business for the foreign bank, conducting research, acting as a liaison between the foreign bank's head office and customers in the United States, performing preliminary and servicing steps in connection with lending, and performing back-office functions. A representative office may not contract for any deposit or deposit-like liability, lend money, or engage in any other banking activity. 12 CFR 211.24(d)(1).

home country supervisor.<sup>5</sup> The Board also considers additional standards set forth in the IBA and Regulation K.<sup>6</sup> The Board will consider that the supervision standard has been met if it determines that the applicant 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. This is a lesser standard than the comprehensive, consolidated supervision standard applicable to proposals 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.<sup>7</sup> This application has been considered under the lesser standard.

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<sup>5</sup> 12 U.S.C. § 3107(a)(2); 12 CFR 211.24(d)(2). In assessing the supervision standard, the Board considers, among other indicia of comprehensive, consolidated supervision, 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 the 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; and (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. No single factor is essential, and other elements may inform the Board's determination.

<sup>6</sup> See 12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2). These standards include: whether the bank's home country supervisor has consented to the establishment of the office; the financial and managerial resources of the bank; whether the bank has procedures to combat money laundering, whether there is a legal regime in place in the home country to address money laundering, and whether the home country is participating in multilateral efforts to combat money laundering; whether the appropriate supervisors in the home country may share information on the bank's operations with the Board; whether the bank and its U.S. affiliates are in compliance with U.S. law; the needs of the community; and the bank's record of operation. See also Standard Chartered Bank, 95 Federal Reserve Bulletin B98 (2009).

<sup>7</sup> 12 CFR 211.24(d)(2).

As noted above, NACF engages directly in the business of banking outside the United States.<sup>8</sup> NACF has provided the Board with the information necessary to assess the application through submissions that address the relevant issues. At the proposed representative office, NACF may engage only in activities permissible for a representative office, which include the proposed customer-liaison, soliciting, marketing, and administrative activities noted above.<sup>9</sup>

With respect to supervision by home country authorities, the Board has considered that the unincorporated banking unit of NACF is supervised by Korea's Financial Supervisory Service ("FSS"). The Board previously has determined that, in connection with applications involving other Korean banks, those banks were subject to comprehensive supervision on a consolidated basis by the FSS.<sup>10</sup> The banking unit of NACF is supervised on substantially the same terms and conditions as those other financial institutions, with additional oversight of the banking unit and of NACF as a whole by other governmental bodies related to NACF's status as a specialized agricultural cooperative.<sup>11</sup> The FSS does not have supervisory responsibility for NACF

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<sup>8</sup> Although not incorporated as a bank, NACF meets the definition of "foreign bank" in the IBA. Foreign bank is defined as "any company organized under the laws of a foreign country ... which engages in the business of banking ..." 12 U.S.C. § 3101(7).

<sup>9</sup> See *supra* note 4.

<sup>10</sup> The FSS is the executive body of the Financial Services Commission ("FSC," formerly the Financial Supervisory Commission), which is responsible for promulgating supervisory regulations, making policy decisions about supervision, and imposing sanctions on Korean financial institutions. The FSS is responsible for the supervision of Korean financial institutions, including overseas offices, pursuant to regulations promulgated by the FSC. See Shinhan Financial Group Co., Ltd., 90 Federal Reserve Bulletin 85 (2004); Woori Finance Holdings Co., Ltd., 89 Federal Reserve Bulletin 436 (2003).

<sup>11</sup> NACF is supervised by the Ministry for Food, Agriculture, Forestry and Fisheries, which inspects each NACF unit, other than the banking unit, over the course of a three-year schedule. Additionally, NACF is subject to periodic on-site examination of all its businesses by the Korean National Assembly's Committee of Agriculture, Forestry and Ocean in connection with its oversight of the Korean agricultural industry.

as a whole. However, the FSS has authority to limit transactions by NACF's banking unit with other NACF business units and to obtain information from those units.<sup>12</sup>

Based on all the facts of record, it has been determined that NACF 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 and the supervision of NACF's banking unit by FSS.

The additional standards set forth in section 7 of the IBA and Regulation K also have been taken into account.<sup>13</sup> The FSS has no objection to the establishment of the proposed representative office.

With respect to the financial and managerial resources of NACF, taking into consideration NACF's record of operations in its home country, its overall financial resources, and its standing with its home country supervisor, financial and managerial factors are consistent with approval of the proposed representative office. NACF 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.

Korea became a member of the Financial Action Task Force ("FATF") on October 14, 2009, and subscribes to the FATF's recommendations regarding measures to combat money laundering and international terrorism. In accordance with those recommendations, Korea has enacted laws and created legislative and regulatory standards to deter money laundering, terrorist financing, and other illicit activities.

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<sup>12</sup> The Korean national legislature is considering a proposal to establish NACF's banking unit as a separate legal entity that would remain a subsidiary of NACF ("separation plan"). Under the separation plan, NACF's banking subsidiary would be subject, as a separate legal entity, to consolidated supervision by the FSS on substantially the same terms and conditions as other banks in Korea that the Board has determined to be subject to comprehensive supervision. NACF expects the separation plan to be implemented by the end of 2011.

<sup>13</sup> See 12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2).

Money laundering is a criminal offense in Korea, and financial services businesses are required to establish internal policies, procedures, and systems for the detection and prevention of money laundering throughout their worldwide operations. NACF has policies and procedures to comply with those laws and regulations, and these policies and procedures are monitored by governmental entities responsible for anti-money laundering compliance.

With respect to access to information about NACF's operations, the restrictions on disclosure in relevant jurisdictions in which NACF operates have been reviewed and relevant government authorities have been communicated with regarding access to information. NACF has committed to make available to the Board such information on the operations of NACF 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 providing such information to the Board may be prohibited by law or otherwise, NACF has committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for the disclosure of such information. In addition, subject to certain conditions, the FSS may share information on NACF'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 NACF has provided adequate assurances of access to any necessary information that the Board may request.

Based on the foregoing and all the facts of record, NACF's application to establish the proposed representative office is hereby 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.<sup>14</sup> Should any restrictions on access to information on the operations or activities of NACF and its affiliates subsequently interfere with the Board's ability to obtain information to determine and

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<sup>14</sup> 12 CFR 265.7(d)(12).

enforce compliance by NACF or its affiliates with applicable federal statutes, the Board may require termination of any of NACF's direct or indirect activities in the United States. Approval of this application also is specifically conditioned on

compliance by NACF with the conditions imposed in this order and the commitments made to the Board in connection with this application.<sup>15</sup> For purposes of this action, these commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with this decision and, as such, may be enforced in proceedings under applicable law.

By order, approved pursuant to authority delegated by the Board, effective June 29, 2010.

*(signed)*

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Robert deV. Frierson  
Deputy Secretary of the Board

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<sup>15</sup> The 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 or its agent, the New York State Banking Department, to license the proposed office of NACF in accordance with any terms or conditions that it may impose.