

FEDERAL RESERVE SYSTEM

Banco Latinoamericano de Exportaciones S.A.
Panama City, Republic of Panama

Order Approving Notice to Engage in Nonbanking Activities

Banco Latinoamericano de Exportaciones S.A. (“Bank”), a foreign banking organization subject to the Bank Holding Company Act (“BHC Act”),¹ has requested the Board’s approval under sections 4(c)(8) and 4(j) of the BHC Act² and section 225.24 of the Board’s Regulation Y³ to act as a certification authority in connection with financial and nonfinancial transactions and engage in related data processing activities. Bank proposes to engage in these activities by entering into an agreement with IdenTrust, Inc. (“IdenTrust”), New York, New York. The agreement will be assigned to a wholly owned, indirect subsidiary of the Bank currently in organization, Clavex, LLC (“Clavex”).

Notice of the proposal, affording interested persons an opportunity to comment, has been published in the Federal Register (71 Federal Register 8858 (2006)). The time for filing comments has expired, and the Board has considered the notice and all comments received in light of the factors set forth in section 4 of the BHC Act.

Bank, with total consolidated assets of approximately \$3.2 billion, is the third largest bank in Panama. In the United States, Bank maintains an

¹ As a foreign bank operating an agency in the United States, Bank is subject to the BHC Act by operation of section 8(a) of the International Banking Act of 1978 (12 U.S.C. § 3106(a)).

² 12 U.S.C. §§ 1843(c)(8) and 1843(j).

³ 12 CFR 225.24.

agency in New York, New York, and has received approval to establish a representative office in Miami, Florida.

The proposed activities would be undertaken within the IdenTrust system in which IdenTrust serves as a central rulemaking and coordinating body for a global network of institutions that act as digital certification authorities. Certification authorities verify or authenticate the identity of customers conducting financial and nonfinancial transactions over the Internet and other “open” electronic networks. To provide these services, IdenTrust and its network of participating financial institutions use digital signatures created with encryption technology. These digital signatures uniquely identify participants in the IdenTrust system who send signed messages over electronic networks. Certification authorities issue digital certificates that certify that the digital signature is uniquely associated with a particular message sender so that the message recipient can be assured of the identity of its trading partner.

As a certification authority, Clavex would provide the technical systems and support necessary for banks to verify and authenticate the identity of customers conducting electronic transactions and to register digital certificates to customers. Clavex would provide these services to Bank as well as to other banks in Puerto Rico, Mexico, the Caribbean, Central America, and South America that enter into contracts with Clavex.⁴ Bank, and any other banks to which Clavex may provide services, would be responsible for performing the due diligence on customers that request digital credentials, a role referred to as “registration authority.” Bank and other registration authorities would register the digital certificates issued to their customers, and Clavex would maintain a database of all certificates issued through its registration

⁴ These banks would also have to enter into agreements with IdenTrust to participate in the IdenTrust system.

authorities. Clavex would also provide registration authorities with the software and hardware required to use the IdenTrust system.

The Board has previously determined by order or regulation that acting as a certification authority in connection with financial and nonfinancial transactions⁵ and data processing⁶ are activities closely related to banking for purposes of section 4(c)(8) of the BHC Act. The proposed activities are consistent with those that have been approved by the Board. In addition, Bank has committed to conduct these activities in accordance with the limitations set forth in Regulation Y and the Board's orders governing these activities.⁷

To approve the notice, the Board also must determine that the proposal 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.⁸ As part of its evaluation of these factors, the Board considers the financial and managerial resources of the companies involved and the effect of the proposal on those resources.⁹ The Board has considered, among other things, information provided by Bank, confidential reports of examination, other confidential supervisory information, and publicly reported financial and other information in assessing the financial and managerial strength of Bank.

In evaluating the financial factors of this proposal, the Board has considered a number of factors, including capital adequacy and earnings

⁵ See Bayerische Hypo- und Vereinsbank AG, 86 Federal Reserve Bulletin 56 (2000) ("Bayerische Order").

⁶ 12 CFR 225.28(b)(14).

⁷ See Bayerische Order.

⁸ 12 U.S.C. § 1843(j)(2)(A).

⁹ 12 CFR 225.26.

performance. Bank's capital ratios exceed the minimum levels that would be required by the Basel Capital Accord and are considered equivalent to the capital that would be required of a U.S. banking organization. Moreover, consummation of this proposal would not have a significant impact on the financial condition of Bank. Based on its review of the record, the Board finds that Bank has sufficient financial resources to effect the proposal.

In addition, the Board has carefully considered the managerial resources of Bank, the supervisory experiences of the relevant banking supervisory agencies with Bank, and Bank's record of compliance with applicable U.S. banking laws. The Board has also reviewed reports of examination from the appropriate supervisors of the U.S. operations of Bank that assessed its managerial resources. Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources of Bank are consistent with approval.

The Board has also considered carefully the competitive effects of the proposal in light of all the facts of record. Bank does not currently act as a certification authority. In addition, the Board notes that the IdenTrust system is structured so that its participants would remain free to compete with each other in providing certification authority and related services to customers. Based on all the facts of record, the Board concludes that Bank's proposed activities are not likely to have any adverse competitive effects.

The Board expects that the proposed activities would result in benefits to the public by enhancing Bank's ability to serve its customers. The certification authority activity would facilitate customers' ability to conduct commercial transactions over the Internet and other "open" electronic networks. These customers will also benefit from the broader array of products and

services Bank will be able to offer and from the ability to purchase such products and services on a regional basis.

The Board has determined that the conduct of the proposed nonbanking activities within the framework of Regulation Y and Board precedent is not likely to result in adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices. Based on all the facts of record, the Board has concluded that consummation of the proposal can reasonably be expected to produce benefits that would outweigh any likely adverse effects. Accordingly, the Board has determined that the balance of the public benefits that it must consider under section 4(j)(2) of the BHC Act is consistent with approval.

Based on the foregoing, the Board has determined that the notice should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act. The Board's approval is specifically conditioned on compliance by Bank with the conditions imposed in this order and the commitments made to the Board in connection with the notice. The Board's approval is also subject to all the conditions set forth in Regulation Y, including those in sections 225.7 and 225.25(c),¹⁰ and to the Board's authority to require such modification or termination of the activities of Bank 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. For purposes of these actions, the conditions and commitments are deemed to be conditions imposed in writing by the Board in

¹⁰ 12 CFR 225.7 and 225.25(c).

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 the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors,¹¹ effective June 8, 2006.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹¹ Voting for this action: Chairman Bernanke and Governors Bies, Olson, Kohn, Warsh, and Kroszner.