

## FEDERAL RESERVE SYSTEM

Banco do Estado do Rio Grande do Sul S.A.  
Port Alegre, Brazil

### Order Approving Establishment of a Branch

Banco do Estado do Rio Grande do Sul S.A. (“Bank”), Port Alegre, Brazil, a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under section 7(d) of the IBA<sup>1</sup> to establish a limited federal branch in Miami, Florida. 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 branch 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 Miami (*Miami Daily Business Review*, March 12, 2010). The time for filing comments has expired, and the Board has considered all comments received.

Bank, with total assets of approximately \$19.0 billion,<sup>2</sup> is the eleventh largest bank in Brazil. The State of Rio Grande do Sul owns approximately 99.6 percent of Bank’s voting stock. Bank provides a range of banking services and financial products to retail customers, small- and medium-sized companies, and public-sector entities. Bank currently operates a branch in New York, New York, and this branch will be closed soon after the proposed limited federal branch in Miami is established. Bank also operates a branch in the Cayman Islands. Bank meets the requirements for a qualifying foreign banking organization under Regulation K.<sup>3</sup>

Bank proposes to relocate the operations of its existing branch in New York to Miami in order to better serve the needs of its customers in the United States. Consistent

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<sup>1</sup> 12 U.S.C. § 3105(d).

<sup>2</sup> Asset and ranking data are as of June 30, 2011.

<sup>3</sup> 12 CFR 211.23(a).

with the restrictions on a limited branch, the proposed branch would not take any deposits other than those permitted for a corporation organized under section 25A of the Federal Reserve Act.<sup>4</sup>

Under the IBA and Regulation K, in acting on an application by a foreign bank to establish a branch, the Board must consider whether the foreign bank (1) engages directly in the business of banking outside the United States; (2) has furnished the Board with the information it needs to assess the application adequately; and (3) is subject to comprehensive supervision on a consolidated basis by its home country supervisors.<sup>5</sup> The Board also considers additional standards as set forth in the IBA and Regulation K.<sup>6</sup>

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<sup>4</sup> To convert the limited branch into a branch, Bank must apply pursuant to section 7 of the IBA. 12 U.S.C. § 3105(d). Under section 25A of the Federal Reserve Act, an Edge corporation may receive deposits outside the United States and only such deposits within the United States that are incidental to or for the purpose of carrying out transactions in foreign countries. 12 U.S.C. § 615(a). Regulation K defines the extent of permissible deposit-taking activities of Edge corporations. 12 CFR 211.6(a)(1). Under section 5 of the IBA, a foreign bank may establish a branch outside its home state if the branch limits its deposit-taking to that of an Edge corporation operating under section 25A of the Federal Reserve Act. 12 U.S.C. § 3103(a)(7)(A). Currently, Bank's home state is New York. Regulations implementing the IBA allow foreign banks to change their home state one time with prior notice to the Federal Reserve. 12 CFR 211.22(b). With the closure of the New York branch, Bank will change its IBA home state from New York to Florida.

<sup>5</sup> 12 U.S.C. § 3105(d)(2); 12 CFR 211.24. In assessing this 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 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. No single factor is essential, and other elements may inform the Board's determination.

<sup>6</sup> 12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2)-(3). The additional standards set forth in section 7 of the IBA and Regulation K include the following: 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

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 previously has determined that other banks in Brazil are subject to home country supervision on a consolidated basis by the Central Bank of Brazil (“Central Bank”), which has primary responsibility for the regulation of financial institutions in Brazil.<sup>7</sup> Bank is supervised by the Central Bank on substantially the same terms and conditions as these other banks. Based on all the facts of record, it has been determined that Bank is subject to comprehensive supervision on a consolidated basis by its home country supervisor.

The additional standards set forth in section 7 of the IBA and Regulation K have also been taken into account.<sup>8</sup> The Central Bank has no objection to the establishment of the proposed branch.

With respect to the financial and managerial resources of Bank, taking into consideration the bank’s record of operations in its home country, its overall financial resources, and its standing with its home country supervisors, financial and managerial

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laundrying, and whether the home country is participating in multilateral efforts to combat money laundrying; 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; the bank’s record of operation. The Board may also take into account, in the case of a foreign bank that presents a risk to the stability of the United States, whether the home country of the foreign bank has adopted, or is making demonstrable progress toward adopting, an appropriate system of financial regulation for the financial system of such home country to mitigate such risk. 12 U.S.C. § 3105(d)(3)(E).

<sup>7</sup> The Board has determined that three Brazilian banks, Banco Itaú S.A., Banco Bradesco S.A., and Banco do Brasil S.A., were subject to comprehensive consolidated supervision by the Central Bank in connection with each bank’s election to be treated as a financial holding company (effective in February 2002 for Banco Itaú, in January 2004 for Banco Bradesco S.A., and in April 2010 for Banco do Brasil).

<sup>8</sup> See, *supra*, note 6.

factors are consistent with approval of the proposed limited branch. Brazil has adopted risk-based capital standards that are consistent with those established by the Basel Capital Accord (“Accord”). Bank’s capital is in excess of the minimum levels that would be required by the Accord and is considered equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank also are consistent with approval, and Bank appears to have the experience and capacity to support the proposed branch. In addition, Bank has established controls and procedures for the proposed branch to ensure compliance with U.S. law and for its operations in general.

Brazil is a member of the Financial Action Task Force and subscribes to its recommendations on measures to combat money laundering. In accordance with these recommendations, Brazil has enacted laws and created legislative and regulatory standards to deter money laundering, terrorist financing, and other illicit activities. Money laundering is a criminal offense in Brazil, and financial 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 Bank’s compliance with applicable laws and regulations is monitored by governmental entities responsible for anti-money-laundering compliance.

With respect to access to information about Bank’s operations, the Board has reviewed the restrictions on disclosure in relevant jurisdictions in which Bank operates and has communicated with relevant government authorities 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, 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 light of these commitments and other facts of record, and subject to the condition described below, the Board has determined that Bank has provided adequate assurances of access to any necessary information that the Board may request.

Information relevant to the standard regarding risk to the stability of the United States financial system has also been reviewed. In particular, consideration has been given to the absolute and relative size of Bank in its home country, the scope of Bank's activities, including the type of activities it proposes to conduct in the United States and the potential for those activities to increase or transmit financial instability, and the framework in place for supervising Bank in its home country. Based on these and other factors, financial stability considerations in this proposal are consistent with approval.

On the basis of all the facts of record, and subject to the commitments made by Bank, as well as the terms and conditions set forth in this order, Bank's application to establish a limited federal branch 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>9</sup> Should any restrictions on access to information on the operations or activities of Bank and 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 termination of any of Bank's direct or indirect activities in the United States, or in the case of any such operation licensed by the Office of the Comptroller of the Currency ("OCC"), recommend termination of such operation. 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.<sup>10</sup> The commitments and conditions referred to above

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<sup>9</sup> 12 CFR 265.7(d)(12).

<sup>10</sup> The Board's authority to approve the establishment of the proposed branch parallels the continuing authority of the OCC to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the OCC to license the proposed office of Bank in accordance with any terms or conditions that it may impose.

are conditions imposed in writing by the Board in connection with this decision and may be enforced in proceedings under 12 U.S.C. § 1818 against Bank and its affiliates.

By order, approved pursuant to authority delegated by the Board, effective October 6, 2011.

*(signed)*

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Robert deV. Frierson  
Deputy Secretary of the Board