

FEDERAL RESERVE SYSTEM

Canara Bank
Bangalore, India

Order Approving Establishment of a Branch

Canara Bank (“Canara”), a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under section 7(d) of the IBA¹ to establish a branch 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 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 (*New York Daily News*, March 30, 2012). The time for filing comments has expired, and the Board has considered all comments received.

Canara, with total consolidated assets of approximately \$77 billion, is the sixth largest commercial bank in India.² The government of India owns approximately 67.7 percent of Canara. No other shareholder owns more than 5 percent of the shares of Canara.

Canara engages in a wide range of activities, including corporate and retail banking, trade finance, venture capital, investment banking, insurance, information system consulting, and asset finance. Outside India, Canara maintains branches or offices in the United Kingdom, the People’s Republic of China, United Arab Emirates, and the Kingdom of Bahrain. Canara has a joint venture in Moscow with State Bank of India, Mumbai, India, and also manages two exchange companies in the Middle East, which facilitate remittances of non-resident Indians in the region. The proposed branch

¹ 12 U.S.C. § 3105(d).

² Asset and ranking data are as of March 31, 2013.

would be Canara's initial location in the United States.³ Canara would be a qualifying foreign banking organization under Regulation K.⁴

The proposed New York branch would offer a range of banking products and services, including permissible deposit accounts, as well as small-business lending, remittance services, advisory services, and trade finance.⁵

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 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 supervisors.⁶ The Board also considers additional standards as set forth in the IBA and Regulation K.⁷

The IBA includes a limited exception to the general standard relating to comprehensive, consolidated supervision.⁸ This exception provides that, if the Board is unable to find that a foreign bank seeking to establish a branch, agency, or commercial lending company, is subject to comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in its home country, the Board may nevertheless approve the application, provided that (i) the appropriate authorities in the home country of the foreign bank are actively working to establish arrangements for the consolidated

³ Upon establishment of the proposed branch, Canara's home state under the IBA and Regulation K would be New York.

⁴ 12 CFR 211.23(a).

⁵ Deposits of the proposed branch would not be insured.

⁶ 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; 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.

⁷ 12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2).

⁸ 12 U.S.C. § 3105(d)(6).

supervision of such bank, and (ii) all other factors are consistent with approval.⁹ In deciding whether to exercise its discretion to approve an application under authority of this exception, the Board must also consider whether the foreign bank has adopted and implemented procedures to combat money laundering.¹⁰ The Board also may take into account whether the home country of the foreign bank is developing a legal regime to address money laundering or is participating in multilateral efforts to combat money laundering.¹¹ This is the standard applied in this case.

As noted above, Canara engages directly in the business of banking outside the United States. Canara 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, in connection with applications involving other banks in India, that those banks' home country authorities were working to establish arrangements for the consolidated supervision of the banks.¹² Canara is supervised by the Reserve Bank of India ("RBI") on substantially the same terms and conditions as those banks.

India participates in international forums that address the prevention of money laundering and terrorist financing. India is a member of the Financial Action Task Force ("FATF"). India is a party to the 1988 U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances and the U.N. International Convention for the Suppression of the Financing of Terrorism.¹³

Since becoming a member of FATF, India has submitted five follow-up reports detailing an action plan to further improve its regime for anti-money-laundering activities and to combat the financing of terrorism ("AML/CFT"), with the latest report

⁹ 12 U.S.C. § 3105(d)(6)(A).

¹⁰ 12 U.S.C. § 3105(d)(6)(B).

¹¹ Id.

¹² ICICI Bank Limited, 94 Federal Reserve Bulletin C26 (2008) (Order dated October 19, 2007); State Bank of India, 94 Federal Reserve Bulletin C69 (2008) (Order dated January 25, 2008).

¹³ India became a full member of the FATF in June of 2010.

presented at the June 2013 plenary session of FATF. In early 2013, India enacted legislation to address issues relating to money laundering and the financing of terrorism, and the implementation of effective confiscation and provisional measures. In addition, the RBI has issued “Know Your Customer (KYC) Guidelines – Anti-Money Laundering Standards” (“Guidelines”), which require financial institutions to establish systems for the prevention of money laundering. Indian banks were required to be fully compliant with the Guidelines by December 31, 2005. The RBI issued further guidelines in February 2006 providing clarification on reporting cash and suspicious transactions to India’s Financial Intelligence Unit.

Canara has policies and procedures to comply with Indian laws and regulations and the RBI’s Guidelines on the prevention of money laundering. Canara has also taken additional steps on its own initiative to combat money laundering and other illegal activities. Canara states that it is committed to implementing the relevant recommendations of the FATF and that it has put in place anti-money-laundering policies and procedures to ensure ongoing compliance with statutory and regulatory requirements, including designating branch-level and regional officers responsible for implementing Canara’s anti-money-laundering policies and procedures.¹⁴ Canara’s compliance with anti-money-laundering requirements is monitored by the RBI and by Canara’s internal and external auditors.

¹⁴ Canara states that the AML/CFT policy documents to be utilized by the proposed branch will be consistent with the FATF financial institution specific recommendations.

Based on all the facts of record, the Board has determined that Canara's home country authorities are actively working to establish arrangements for the consolidated supervision of Canara and that considerations relating to the steps taken by Canara and its home country to combat money laundering are consistent with approval under this exemption.

The Board has also taken into account the additional standards set forth in section 7 of the IBA and Regulation K.¹⁵ The RBI has approved the establishment of the proposed branch.

The financial and managerial factors in this case have been considered and are consistent with approval of the proposed branch. India's risk-based capital standards are consistent with those established by the Basel Capital Accord. Canara'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 Canara are consistent with approval, and Canara appears to have the experience and capacity to support the proposed branch. In addition, Canara has established controls and procedures for the proposed branch to ensure compliance with U.S. law.

With respect to access to information about Canara's operations, the restrictions on disclosure in relevant jurisdictions in which Canara operates have been reviewed, and relevant government authorities have been contacted regarding access to information. Canara has committed to make available to the Board such information on its operations and those of 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

¹⁵ See 12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2). These standards include:

(i) whether the bank's home country supervisor has consented to the establishment of the office; (ii) the financial and managerial resources of the bank; (iii) 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; (iv) whether the appropriate supervisors in the home country may share information on the bank's operations with the Board; (v) whether the bank and its U.S. affiliates are in compliance with U.S. law; (vi) the needs of the community; and (vii) the bank's record of operations.

Board may be prohibited by law or otherwise, Canara 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, it has been determined that Canara has provided adequate assurances of access to any necessary information that the Board may request.

Section 173 of the Dodd-Frank Wall Street Reform and Consumer Protection Act amended the IBA to provide that the Board may consider, for a foreign bank that presents a risk to the stability of the United States financial system, 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.¹⁶ Information relevant to this standard has been reviewed. In particular, consideration has been given to the absolute and relative size of Canara in its home country; the scope of Canara'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 Canara 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 Canara as well as the terms and conditions set forth in this order, Canara's application to establish a branch in New York, New York, 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.¹⁷ Should any restrictions on access to information on the operations or activities of Canara and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Canara or its affiliates with applicable federal statutes, the Board may require termination of any of Canara's direct or indirect activities in the United

¹⁶ 12 U.S.C. § 3105(d)(3)(E).

¹⁷ 12 CFR 265.7(d)(12).

States. Approval of this application also is specifically conditioned on compliance by Canara with the commitments made in connection with this application and with the conditions in this order.¹⁸ The commitments and conditions referred to above are deemed to be 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 Canara and its affiliates.

By order, approved pursuant to authority delegated by the Board, effective December 13, 2013.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

¹⁸ The authority to approve the establishment of the proposed branch parallels the continuing authority of the State of New York to license offices of a foreign bank. The approval of this application does not supplant the authority of the New York State Department of Financial Services (“Department”) to license the proposed office of Canara in accordance with any terms or conditions that the Department may impose.