

FEDERAL RESERVE SYSTEM

Royal Bank of Canada
Montreal, Canada

Order Approving Establishment of a Branch

Royal Bank of Canada, Montreal, Canada (“RBC”), a foreign bank within the meaning of the International Banking Act of 1978 (“IBA”), has applied under section 7(d) of the IBA¹ to establish a limited federal branch in Jersey City, New Jersey. 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 Jersey City, New Jersey (*The Jersey Journal*, September 12, 2014). The time for submitting comments has expired, and the Board has considered all comments received.

RBC, with consolidated assets of approximately \$832 billion, is the second largest bank in Canada.² RBC offers a range of commercial, wealth management, and retail banking products. In addition to its Canadian and U.S. activities, RBC operates in over 44 countries through a network of branches, local

¹ 12 U.S.C. § 3105(d).

² Asset and ranking data are as of July 31, 2015, and are based on the exchange rate as of that date.

banks, and nonbank subsidiaries.³ RBC is a qualifying foreign banking organization under Regulation K.⁴

Under section 5 of the IBA, a foreign bank may establish a branch outside its home state under certain conditions. One set of conditions permits a foreign bank to establish a branch outside its home state if the establishment and operation of such branch is permitted by the state in which the branch is to be established and the branch limits its deposit-taking to that of an Edge corporation operating under section 25A of the Federal Reserve Act.⁵ RBC meets the requirements to establish an interstate branch pursuant to these conditions in section 5 of the IBA in this case.⁶ Consistent 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.⁷ The proposed branch would also provide similar services to those provided by its New York branches, which include credit and financial services primarily focused on institutional clients and capital market activities.

³ In the United States, RBC operates a bank subsidiary, RBC Bank (Georgia), National Association, Atlanta, Georgia; three federal branches in New York, New York (“New York branches”); an agency in Dallas, Texas; representative offices in San Francisco, California, Wilmington, Delaware, and Seattle, Washington; and a broker-dealer, RBC Capital Markets LLC, in New York, New York.

⁴ 12 CFR 211.23(a).

⁵ 12 U.S.C. § 3103(a)(7)(A).

⁶ A foreign bank may also establish a full-service branch if it meets other conditions in the IBA. 12 U.S.C. § 3103(a)(7)(B).

⁷ RBC’s home state is New York. Under section 25A of the Federal Reserve Act, an Edge corporation may receive deposits outside the United States and may receive only such deposits in 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 the IBA and Regulation K, in acting on an application by a foreign bank to establish a branch, the Board must consider whether (1) the foreign bank and any foreign bank parent engage directly in the business of banking outside of the United States, (2) the foreign bank has furnished to the Board the information it needs to assess the application adequately, and (3) the foreign bank and any foreign bank parent are subject to comprehensive supervision on a consolidated basis by their home country supervisor.⁸ The Board also considers the financial and managerial resources of the organization, the convenience and needs of the community, and other factors set forth in the IBA and Regulation K.⁹

⁸ 12 U.S.C. § 3105(d)(2); 12 CFR 211.24. Regulation K provides that a foreign bank is subject to consolidated home country supervision if the foreign bank is supervised or regulated in such a manner that its home country supervisor receives sufficient information on the worldwide operations of the foreign bank (including the relationships of the bank to an affiliate) to assess the foreign bank's overall financial condition and compliance with law and regulation. 12 CFR 211.24(c)(1)(ii). 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.

⁹ 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: (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 has provided the Board with adequate assurances that it will make available to the

As noted above, RBC engages directly in the business of banking outside the United States. RBC also has provided the Board with information necessary to assess the application through its submissions that address the relevant issues.

With respect to supervision by home country authorities, the Board has previously determined that RBC is subject to comprehensive supervision on a consolidated basis by its home country supervisor, the Office of the Superintendent of Financial Institutions (“OSFI”).¹⁰ Based on all the facts of record, it has been determined that RBC continues to be subject to comprehensive supervision on a consolidated basis by its home country supervisor.

The Board has also considered the financial and managerial, and other, factors required by the IBA. Canada’s risk-based capital standards are consistent with those established by the Basel Capital Accord (“Accord”). RBC’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 RBC are considered consistent with approval, and RBC appears to have the experience and capacity to support the proposed limited branch. In addition, RBC has established controls

Board such information on its operations and activities and those of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA and other applicable federal banking statutes; (vi) whether the bank and its U.S. affiliates are in compliance with U.S. law; (vii) the needs of the community; and (viii) the bank’s record of operation. The Board also considers, in the case of a foreign bank that presents a risk to the stability of the United States, whether the home country of the 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).

¹⁰ RBC Investor Services Bank S.A., FRB Order No. 2013-15 (Dec. 17, 2013); Royal Bank of Canada, 94 Federal Reserve Bulletin C45 (2008); Royal Bank of Canada, 83 Federal Reserve Bulletin 442 (1997).

and procedures for the proposed branch to ensure compliance with U.S. law and for its operations in general.

The OSFI has no objection to the establishment of the proposed branch. Canada is a member of the Financial Action Task Force and subscribes to its recommendations on measures to combat money laundering and international terrorism. In accordance with these recommendations, Canada 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 Canada, and financial institutions are required to establish internal policies, procedures, and systems for the detection and prevention of money laundering throughout their worldwide operations. RBC has policies and procedures to comply with these laws and regulations, and RBC's compliance with applicable laws and regulations is monitored by governmental entities responsible for anti-money-laundering compliance.

With respect to access to information on RBC's operations, the restrictions on disclosure in relevant jurisdictions in which RBC operates have been reviewed, and relevant government authorities have been contacted regarding access to information. RBC has committed to make available to the Board such information on its operations and on those of any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act of 1956, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law or otherwise, RBC 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, it has been determined that RBC 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 (“Dodd-Frank 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.¹¹ 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 RBC in its home jurisdiction; the size, type, and scope of the activities RBC proposes to conduct in the United States, including the potential for those activities to increase or transmit financial instability; and the framework in place for supervising RBC in its home jurisdiction. 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 RBC as well as to the terms and conditions set forth in this order, RBC’s application to establish a limited federal branch in New Jersey 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.¹² Should any restrictions on access to information on the operations or activities of RBC and its affiliates subsequently interfere with the Board’s ability to determine and enforce compliance by RBC or its affiliates with applicable federal statutes, the Board may require termination of any of RBC’s direct or

¹¹ Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376, 1440 (2010), codified at 12 U.S.C. § 3105(d)(3)(E).

¹² 12 CFR 265.7(d)(12).

indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by RBC with the commitments made in connection with this application and with the conditions in this order.¹³

By order, approved pursuant to authority delegated by the Board, effective October 7, 2015.

Robert deV. Frierson (signed)

Robert deV. Frierson
Secretary of the Board

¹³ The Board's authority to approve the establishment of branches parallels the continuing authority of the Office of the Comptroller of the Currency ("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 branch of RBC in accordance with any terms and conditions that it may impose.