Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

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To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, Savings and Loan Holding Companies,
and Foreign Banking Offices
in the Twelfth Federal Reserve District

Federal Reserve Board Releases Proposed Rules to Strengthen the Oversight of U.S. Operations of Foreign Banks

On December 14, 2012, The Federal Reserve Board proposed rules to strengthen the oversight of U.S. operations of foreign banks.

The proposal would require foreign banking organizations with a significant U.S. presence to create an intermediate holding company over their U.S. subsidiaries, which would help facilitate consistent and enhanced supervision and regulation of the U.S. operations of these foreign banks. Foreign banks would also be required to maintain stronger capital and liquidity positions in the United States, helping to increase the resiliency of their U.S. operations.

“The proposed rulemaking is another important step toward strengthening our regulatory framework to address the risks that large, interconnected financial institutions pose to U.S. financial stability,” Federal Reserve Chairman Ben S. Bernanke said.

The proposal implements provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act in a manner that addresses the risks associated with the increased complexity, interconnectedness, and concentration of the U.S. operations of foreign banking organizations.

“Applicable regulations have changed relatively little in the last decade, despite a significant and rapid transformation in the U.S. activities of foreign banks, many of which moved beyond their traditional lending activities to engage in substantial, and often complex, capital market activities,” Governor Daniel K. Tarullo said. “The crisis revealed the resulting risks to U.S. financial stability.”

The proposal generally applies to foreign banking organizations with a U.S. banking presence and total *global* consolidated assets of $50 billion or more. More stringent standards are proposed for foreign banking organizations with combined *U.S.* assets of $50 billion or more.

The Board proposed a number of measures, including:

- **U.S. intermediate holding company requirement.** A foreign banking organization with both $50 billion or more in global consolidated assets and U.S. subsidiaries with $10 billion or more in total assets generally would be required to organize its U.S. subsidiaries under a single U.S. intermediate holding company (IHC). Such a structure would create a platform for the consistent supervision and regulation of the U.S. operations of foreign banking organizations and help facilitate the resolution of failing U.S. operations of a foreign bank if needed.

- **Risk-based capital and leverage requirements.** IHCs of foreign banking organizations would be subject to the same risk-based and leverage capital standards applicable to U.S. bank holding companies. This proposed requirement would help bolster the consolidated capital positions of the IHCs as well as promote a level playing field among all banking firms operating in the United States. IHCs with $50 billion or more in consolidated assets also would be subject to the Federal Reserve’s capital plan rule.

- **Liquidity requirements.** The U.S. operations of foreign banking organizations with combined U.S. assets of $50 billion or more would be required to meet enhanced liquidity risk-management standards, conduct liquidity stress tests, and hold a 30-day buffer of highly liquid assets. The liquidity requirements would help make the U.S. operations of foreign banking organizations more resilient to funding shocks during times of stress.

The proposal also includes measures regarding capital stress tests, single-counterparty credit limits, overall risk management, and early remediation.

The Federal Reserve is proposing a substantial phase-in period to give foreign banking organizations time to adjust to the new rules. Foreign banking organizations with global consolidated assets of $50 billion or more on July 1, 2014, would be required to meet the new standards on July 1, 2015.

The Federal Reserve consulted with other members of the Financial Stability Oversight Council in developing the proposal. Comments from the public will be accepted through March 31, 2013.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at http://www.frbsf.org/banking/letters.

For additional information, please contact:

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Attachments: Statement by Chairman Ben S. Bernanke

Statement by Governor Daniel K. Tarullo

Statement by Governor Jeremy C. Stein

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