

FEDERAL RESERVE SYSTEM

Bank of Taiwan
Taipei, Taiwan

Order Approving Establishment of a Branch

Bank of Taiwan, Taipei, Taiwan (“Bank”), a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under section 7(d) of the IBA¹ to upgrade its existing state-licensed agency to a state-licensed 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 in New York, New York (*New York Post*, December 30, 2010). The time for filing comments has expired, and the Board has considered all comments received.

Bank, with total assets of approximately \$135 billion, is the largest commercial bank in Taiwan.² Taiwan Financial Holdings Co., Ltd., which is wholly owned by Taiwan’s Ministry of Finance, owns all of Bank’s shares. Bank offers a range of commercial, investment, and retail banking products. Outside Taiwan, Bank operates branches in Hong Kong, Johannesburg, London, Singapore, and Tokyo and a representative office in Shanghai. In addition to its current state-licensed agency, Bank operates a state-licensed branch in Los Angeles, California.³ Bank meets the requirements for a qualifying foreign banking organization under Regulation K.⁴

¹ 12 U.S.C. § 3105(d).

² Asset and ranking data are as of March 31, 2011.

³ Bank’s home state is California. Under section 5 of the IBA, a foreign bank may upgrade an agency outside its home state to a branch if such an upgrade is permitted under state law and all other factors are consistent with approval. 12 U.S.C. § 3103(a)(7)(B).

⁴ 12 CFR 211.23(a).

The proposed branch would continue the current activities of the New York agency, which include financing, syndicated lending, purchasing and holding securities, remittances, and foreign exchange trading, and would commence engaging in wholesale deposit-taking.

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.⁵ The Board also considers additional standards as set forth in the IBA and Regulation K.⁶

⁵ 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.

⁶ 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 laundering, and whether the home country is participating in multilateral efforts to combat money laundering; 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).

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 Taiwan are subject to home country supervision on a consolidated basis by the Financial Supervisory Commission (“FSC”), which has primary responsibility for the regulation of financial institutions in Taiwan.⁷ Bank is supervised by the FSC on substantially the same terms and conditions as those other banks. Based on all the facts of record, it has been determined that Bank continues to be 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.⁸ The FSC has no objection to the establishment of the proposed branch.

The Board has also considered carefully the financial and managerial factors in this case. Taiwan 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.

Taiwan has enacted laws and regulations to deter money laundering that are consistent with Financial Action Task Force recommendations. Money laundering is a criminal offense in Taiwan, and financial institutions are required to establish internal

⁷ See, e.g., Industrial Bank of Taiwan Co., Ltd., 93 Federal Reserve Bulletin C62 (2007). Bank was found to be subject to comprehensive supervision on a consolidated basis by the Ministry of Finance and the Central Bank of China in 1993. Bank of Taiwan, 79 Federal Reserve Bulletin 541 (1993).

⁸ See, supra, note 6.

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.

Taiwan has made progress toward adopting a system of financial regulation for its financial system to mitigate the risk to financial stability from its banks. The FSC and the Taiwanese government have taken a number of measures to strengthen the overall financial supervisory regime. These measures include requiring financial institutions to improve the management of assets and liabilities and transparency of financial information. Financial institutions are also required to improve corporate governance, internal controls, and internal audit systems. The FSC also has implemented regulations governing prompt corrective action and market-exit mechanisms for troubled financial institutions and has tightened the anti-money-laundering regime for the financial sector. The FSC has established mechanisms to cooperate with supervisory authorities in other countries for the supervision of cross-border banking, and it actively participates in the activities of international organizations.

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 branch is hereby approved. 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. 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.⁹ The commitments and conditions referred to above 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 of the Board of Governors,¹⁰ effective June 27, 2011.

(signed)

Jennifer J. Johnson
Secretary of the Board

⁹ The Board's 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 Board's approval of this application does not supplant the authority of the State of New York and its agent, the New York State Banking Department, to license the proposed branch of Bank in accordance with any terms or conditions that the New York State Banking Department may impose.

¹⁰ Voting for this action: Chairman Bernanke, Vice Chair Yellen, and Governors Duke, Tarullo, and Raskin.