

FEDERAL RESERVE SYSTEM

Andhra Bank
Hyderabad, India

Order Approving Establishment of a Representative Office

Andhra Bank, Hyderabad, India (“Bank”), a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under section 10(a) of the IBA¹ to establish a representative office in Jersey City, New Jersey. 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 representative office in the United States.

Notice of the application, affording interested persons an opportunity to submit comments, has been published in a newspaper of general circulation in New Jersey (*The Star-Ledger*, July 24, 2007). The time for filing comments has expired, and all comments received have been considered.

Bank, with total consolidated assets of approximately \$14.2 billion,² is the 21st largest bank in India. The Government of India owns approximately 52 percent of Bank’s shares.³ The remaining shares are held widely by individuals and institutional investors.⁴ Bank currently has operations primarily in India, where it provides commercial and retail banking services and investment banking services throughout the country. Bank also operates a representative office in the United Arab Emirates. The proposed representative office would market products of Bank in the

¹ 12 U.S.C. § 3107(a).

² Data are as of March 31, 2008.

³ The President of India, acting through the Ministry of Finance, holds these shares on behalf of the Government of India.

⁴ Life Insurance Corporation of India owns 7.5 percent, and Genesis Indian Investment Co. Limited owns 5.7 percent. No shareholder of the bank, other than the Government of India, by law is entitled to exercise voting rights in excess of 1 percent of the total voting rights of all the shareholders of the bank.

United States, act as a liaison between Bank's head office in India and its prospective U.S.-based customers, and conduct research.

In acting on a foreign bank's application under the IBA and Regulation K to establish a representative office, the Board shall take into account whether the foreign bank engages directly in the business of banking outside of the United States and has furnished to the Board the information it needs to assess the application adequately.⁵ The Board shall also take into account whether the foreign bank is subject to comprehensive supervision on a consolidated basis by its home country supervisor.⁶ Under Regulation K, a representative-office application may be approved if the Board determines that the applicant bank is subject to a supervisory framework that is consistent with the activities of the proposed representative office, taking into account the nature of such activities.⁷ This is a lesser standard than the comprehensive, consolidated supervision standard applicable to applications to establish branch or agency offices of a foreign bank. The Board considers the lesser standard sufficient for approval of representative office applications because representative offices may not engage in banking activities.⁸ The Board also considers additional standards set forth in the IBA and Regulation K.⁹

⁵ 12 U.S.C. § 3107(a)(2).

⁶ Id.

⁷ 12 CFR 211.24(d)(2).

⁸ A representative office may engage in representational and administrative functions in connection with the banking activities of the foreign bank, including soliciting new business for the foreign bank; conducting research; acting as a liaison between the foreign bank's head office and customers in the United States; performing preliminary and servicing steps in connection with lending; and performing back-office functions. A representative office may not contract for any deposit or deposit-like liability, lend money, or engage in any other banking activity. 12 CFR 211.24(d)(1).

⁹ See 12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2). These standards include: 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

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. At the proposed representative office, Bank may engage only in activities permissible for a representative office under Regulation K, which include the proposed customer-liaison, marketing, and research activities noted above.¹⁰

With respect to supervision by home country authorities, the Board has considered that Bank is supervised by the Reserve Bank of India (“RBI”), the primary regulator of financial institutions in India. The Board previously has considered, in connection with applications involving other Indian banks, the supervisory regime in India for financial institutions.¹¹ Bank is supervised by the RBI on substantially the same terms and conditions as those other banks. Based on all the facts of record, it has been determined that Bank is subject to a supervisory framework that is consistent with the activities of the proposed representative office, taking into account the nature of such activities.

The additional standards set forth in section 7 of the IBA and Regulation K have also been taken into account.¹² With respect to the financial and managerial resources of Bank, taking into consideration its record of operation in its home country, its overall financial resources, and its standing with its home country supervisor, financial and managerial factors are consistent with approval. Bank appears to have the experience and capacity to support the proposal and has established controls and procedures for the proposed representative office to ensure compliance with U.S. law and for its operations

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; and the bank’s record of operation.

¹⁰ See supra note 7.

¹¹ See State Bank of India, 94 Federal Reserve Bulletin C69 (2008) and see ICICI Bank Limited, 94 Federal Reserve Bulletin C26 (2008). In connection with each of these applications, the Board determined that the RBI is actively working to establish arrangements for the consolidated supervision of the particular bank.

¹² See supra note 8.

in general. The RBI has no objection to the establishment of the proposed representative office.

In recent years, the Indian government has enhanced its anti-money laundering regime. In January 2003, India took initial steps to adopt an anti-money laundering law, the Prevention of Money Laundering Act. The law, related amendments, and implementing rules (collectively, the “PMLA”) became effective in July 2005 and established a regulatory infrastructure to assist the anti-money laundering effort. In accordance with the PMLA, India has established the Financial Intelligence Unit, India (“FIU-IND”), which reports directly to the Economic Intelligence Council headed by the Finance Minister of India. The FIU-IND is responsible for receiving, processing, analyzing, and disseminating information related to cash and suspicious transaction reports. The Directorate of Enforcement, a department within the Ministry of Finance, is responsible for investigating and prosecuting money laundering cases. In addition, the RBI issued “Know Your Customer (KYC) Guidelines – Anti-Money Laundering Standards” (“Guidelines”) in November 2004, 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 the FIU-IND. India participates in international fora that address the prevention of money laundering and terrorist financing.

India is a member of the Asia/Pacific Group on Money Laundering, an observer organization to the Financial Action Task Force (“FATF”), and is actively seeking to join FATF as a member.¹³ 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.

Bank has policies and procedures to comply with Indian laws and regulations and the RBI’s Guidelines regarding anti-money laundering. Bank has represented that it will adopt a compliance program for the proposed representative

¹³ India became an observer to FATF in February 2007.

office to establish and maintain procedures to monitor compliance with the Bank Secrecy Act and its implementing regulations.

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 its operations 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 addition, subject to certain conditions, the RBI may share information on Bank's operations with other supervisors, including the Board. In light of these commitments and other facts of record, and subject to the condition described below, it has been determined that Bank has provided adequate assurances of access to any necessary information that the Board may request.

Based on the foregoing and all the facts of record, and subject to the commitments made by Bank and the terms and conditions set forth in this order, Bank's application to establish the representative office is hereby approved.¹⁴ 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 conditions imposed in this order and the commitments

¹⁴ 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. See 12 CFR 265.7(d)(12).

made to the Board in connection with this application.¹⁵ For purposes of this action, these commitments and conditions are deemed to be conditions imposed by the Board in writing in connection with these findings and decision and, as such, may be enforced in proceedings under applicable law.

By order, approved pursuant to authority delegated by the Board, effective July 23, 2008.

(SIGNED)

Robert deV. Frierson
Deputy Secretary of the Board

¹⁵ The Board's authority to approve the establishment of the proposed representative office parallels the continuing authority of the State of New Jersey to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the State of New Jersey or its agent, the New Jersey Department of Banking and Insurance, to license the proposed office of Bank in accordance with any terms or conditions that it may impose.