

Client Alert

June 30, 2014



Federal Reserve Issues Guidance on Implementation Plans and Other Enhanced Prudential Standards for Foreign Banking Organizations

On June 26, 2014, the Federal Reserve Board (“Board”) published on its website responses to frequently asked questions (“FAQs”) relating to enhanced prudential standards under Section 165 of the Dodd-Frank Act and its implementing Regulation YY. The FAQs were collected by Board staff during an industry outreach call or were otherwise asked by foreign banking organizations (“FBOs”). The FAQs relate to the implementation plan, U.S. structure, regulatory reporting, capital adequacy, capital stress testing, risk management, liquidity, and other topics relating to Regulation YY applicable to FBOs. The Board indicated that additional categories may be added as these FAQs are updated, and that the FAQs are not official interpretations.

For a general summary of the final rule imposing enhanced prudential standards on FBOs, please read our [Client Alert](#).

The 55 FAQs as of June 26, 2014 illustrate how select provisions of the regulation apply to specific situations, but do not necessarily address all provisions that may apply to any given situation. Among other issues, the FAQs provide guidance on the scope, level of detail, and length of an implementation plan that an FBO must submit to the Federal Reserve, which must be designed to evaluate whether the FBO is on a path toward compliance with the final rule by July 1, 2016. With respect to entertaining requests for extensions of the deadline for filing implementation plans, the Board staff indicates that “all firms are expected to meet the filing deadline set forth in Regulation YY,” and that FBOs can seek clarification about the implementation plan requirements via the FBO Enhanced Prudential Standards mailbox (FBO-Enhanced-Prudential-Standards-Implementation@frb.gov).

The FAQs indicate that the Board staff expects that an FBO subject to the Regulation YY requirement to form a single U.S. intermediate holding company (“IHC”) submit an implementation plan that is consistent with the requirements of the final rule, unless an FBO receives formal, written approval of an alternative structure from the Board. An FBO that plans to seek approval of an alternative organizational structure that would materially affect its implementation plan should seek guidance from the Board staff as to whether the FBO should also reflect this alternative organizational structure in its implementation plan.

The Board has also indicated that it expects implementation plans to discuss material asset transfers between an FBO’s U.S. branch and subsidiaries, and that although such transfers are not prohibited, the Board would “monitor material shifts of assets from subsidiaries to branches through the supervisory process and would take appropriate supervisory action to address safety and soundness concerns.” The Board has also indicated that requests for exemptions under the rule, such as requests for multiple U.S. IHCs, requests to maintain subsidiaries outside of the IHC or to establish alternative U.S. chief risk officer reporting lines, must be submitted by the FBO separately from the implementation plan. The implementation plan should note any exemption requests, but

cannot assume that such exemptions are granted.

The Board staff expects an FBO to revise its plan to reflect any material changes that would affect the firm's ability to be in compliance with the final rule by July 1, 2016. The FAQs define "material change" as an event that would materially affect the path toward compliance, such as a sizeable merger or acquisition transaction, sale or wind-down of major business lines or assets, or a material restatement of financial reports.

The Board FAQs are available at <http://www.federalreserve.gov/bankinfo/reg/topics/faq-enhanced-prudential-standards-fbo.htm>.

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