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Regulation of Foreign Banks in the United States

Federal Reserve Governor Tarullo Previews Proposals for Major Revisions to the Regulatory Structure of Foreign Banks with Significant U.S. Operations

Federal Reserve Board Governor Daniel Tarullo announced today, in a speech at the Yale School of Management, that the Board of Governors of the Federal Reserve System (the “**Board**”) will issue in the “coming weeks” a proposed rule that would significantly alter the regulation of the U.S. operations of foreign banking organizations (“**FBOs**”). As described by Gov. Tarullo, the proposed rule is likely to include three “targeted adjustments” to the existing regulatory regime that incorporate five basic proposals:

- A requirement that FBOs with the “largest U.S. operations” establish a top-tier U.S. intermediate holding company (“**IHC**”),¹
- A requirement that the IHC be subject to the “same” capital rules as those applied to U.S. bank holding companies (“**BHCs**”);
- The application of the Dodd-Frank Wall Street Reform and Consumer Protection Act “enhanced prudential standards” to the U.S. operations of “large” foreign banks in a manner “consistent with” the Board’s “domestic” proposal;²
- Liquidity standards applicable to IHCs that would be “broadly consistent” with the Board’s standards for large domestic BHCs; and
- Liquidity standards for foreign bank branch and agency networks in the U.S. that “may be less stringent” than those that would be applicable to IHCs.

We intend to publish a more detailed memorandum in the near future.

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ENDNOTES

- ¹ As written, the IHC proposal would appear to apply to a foreign bank even if such foreign bank did not have a bank subsidiary, but the proposal would presumably require that the foreign bank be subject to the International Banking Act of 1978 because it has a branch or agency in the U.S.
- ² *Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies*, 77 Fed. Reg. 594 (Jan. 5, 2012).

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