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Statement on

H. R. 7325, 95th Congress, a Bill "To provide for Federal regulation of participation by foreign banks in domestic and financial markets."

Presented to

Subcommittee on Financial Institutions
Supervision, Regulation and Insurance,
House Committee on Banking, Finance and Urban Affairs...
House of Representatives

by

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Mr. Chairman, I welcome the opportunity to testify on issues raised in H. R. 7325, the International Banking Act of 1977.

The efforts of the House Banking, Currency and Housing Committee and this Subcommittee in this area have been timely and appropriate in light of the rapidly growing presence of the operations of foreign banks in the United States. According to statistics provided by the Federal Reserve, from November 1972 to the end of 1976, the number of U. S. banking institutions owned by foreign banks increased from 104 to 202 and their total U. S. assets more than tripled from $24 billion to $76 billion. Since 1965, there has been almost a tenfold increase in their assets.

Foreign banks presently operate in the United States through agencies, direct branches, subsidiaries and commercial lending companies. Currently, these foreign banking organizations are located in eight states plus Puerto Rico and the Virgin Islands. However, 92 percent of all foreign banking offices in the U. S. are concentrated in New York, California and Illinois.

In terms of both number of offices and amount of assets, agencies are the dominant form of foreign banking in the U. S. As of December 1976, 91 agencies with approximately $30 billion in assets were operating in New York, California, Georgia and Hawaii. Agencies operate under state licenses and are not permitted to hold deposits but their customers may maintain credit balances which are technically due to the account of the home office.

Direct branches are the most rapidly growing form of foreign banking in the United States. There were 70 branches with assets totalling $28 billion in New York, Illinois, Washington, Oregon, Massachusetts, Puerto Rico and the Virgin Islands. Branches are licensed under state law and are permitted to hold both foreign and domestic deposits. These deposits are currently not eligible for Federal deposit insurance.

Foreign banks owned 36 state-chartered subsidiaries in New York, California, Illinois and Puerto Rico, with assets of $16 billion. Such subsidiaries may become members of the Federal Reserve System. Five have chosen to do so. Also, foreign banks may apply for national charters for bank subsidiaries; however, the requirement that all national bank directors be U.S. citizens has made this unattractive. Bank subsidiaries of foreign banks are subject to the Bank Holding Company Act of 1956, and must maintain FDIC insurance coverage.

Five commercial lending corporations with $1.9 billion in assets were licensed to operate in New York. In addition to having a wide range of conventional banking powers, these entities may engage in some investment banking.

Finally, a total of 21 securities affiliates were licensed to operate in the U.S. as of 1975. These firms are engaged in underwriting and direct sale of securities, activities that are prohibited for domestic banks by the Glass-Steagall Act. Most of these affiliates are located in New York State.

If a foreign bank chooses to operate in this country through a domestically incorporated banking subsidiary, its operations here are generally subject to the same rules under the Bank Holding Company Act that govern the U.S. activities of domestic bank holding companies, with limited exceptions involving nonbanking activities permitted by Federal Reserve regulations issued under Section 4(c)(9) of that Act. However, to the extent that a foreign bank operates domestically through branches, agencies, or commercial lending companies, it is not subject to certain restrictions and requirements applicable to domestic banking organizations -- principally those which forbid operating deposit-taking offices in more than one state and operating affiliated companies engaged in a securities business.

The stated goals of this legislation are twofold: The first is to provide a system of federal regulation of the domestic activities of foreign banks because of the role these institutions play in domestic financial markets, their impact on the domestic and foreign commerce of the United States and because most foreign banks operate in more than one state. The second goal is national treatment of foreign banks. In other words, to the extent possible or appropriate, foreign and domestic banks operating within the United States should be treated equally.

It seems to me that as a general principle, the goal of "national treatment" or "nondiscrimination" in the regulation of foreign enterprises

operating in the United States is highly desirable and should be pursued provided that its implementation is feasible and adherence to it would not interfere with some other important public policy objective. Although some have objected to the national treatment approach on the grounds that it will prompt foreign countries to retaliate, I am persuaded by Governor Gardner's view, expressed when he was Deputy Secretary of the Treasury, that retaliation by foreign governments is not "... supported by the practical realities of the marketplace."

Similarly, I am in complete agreement with the notion that, consistent with our framework of bank supervision, U. S. operations of foreign banks should be subject to federal regulation and supervision. In addition to arguments based on fairness to domestic competitors, a strong case can be made for the proposition that the special characteristics of foreign branches and agencies give rise to a set of concerns which is peculiarly federal in nature and particularly the province of the Federal Reserve System.

For these reasons, I support the essential thrust of the legislation before the Committee and, indeed, strongly endorse many of its provisions. At the same time, I would be less than candid if I did not express reservations about certain aspects of the bill as drafted and state my own views as to preferable policy choices. In some respects, it seems to me that the bill itself deviates from the policy of nondiscrimination without an overriding reason for doing so. In the discussion

which follows, I shall outline the FDIC's views with respect to six of the major facets of this legislation.

Provision of a Federal Chartering Option

Section 4 of the bill would provide a federal option for domestic branches and agencies of foreign banks by authorizing the Comptroller to approve their establishment in states where the foreign bank does not already operate a branch or agency under state law and where state law does not prohibit the establishment of a foreign branch or agency. These branches and agencies will be regulated and supervised like national banks to the extent appropriate. In addition, Section 2 of the bill would significantly liberalize requirements in the National Bank Act and the Edge Act restricting National Bank and Edge Act corporation directors to U. S. citizens. Consistent with the principle of nondiscrimination, these provisions would afford foreign institutions the benefits of choice implicit in our dual system. I heartily endorse these changes.

Prohibition on Interstate Banking Operations by Foreign Banks

Section 5(a) of the bill prohibits interstate branching by foreign banks unless national banks are accorded the same privilege. This subsection further provides that establishment of agency or commercial lending company operations outside the home state selected by a foreign bank requires the approval of a state in which it desires to operate.

Thus, while interstate operations are permitted to agencies and commercial lending companies, the practical effect of the provision is to restrict domestic subsidiaries and direct branches of foreign banks to only its "home state."

The thrust of these provisions is, of course, to apply the principle of national treatment, as embodied in the McFadden Act, to the U.S. branches of foreign banks. It is argued, and there is perhaps some validity to the argument, that foreign banks enjoy a competitive advantage in that they can conduct multi-state deposit banking operations. Certainly, whatever the impact on the ability of a foreign bank to compete, it should be acknowledged that foreign banks do enjoy a privilege that many U.S. banks covet dearly.

However, it should also be noted that foreign banks currently operate banking-type operations in only eleven U.S. states and territories while interstate operations of our large bank holding companies extend into almost every state. These interstate activities include consumer and sales finance, commercial lending, mortgage banking, selling and reinsuring credit related insurance, leasing, computer services and providing venture capital to business. U.S. banks may also establish Edge Act corporations, loan production offices and representative offices in states other than their home state.

Absent some overriding public interest, notions of equity and symmetry would lead one to adopt the course proposed in the bill. However, in my judgment there is an overriding public interest which leads

me to strenuously oppose application of the principle of national treatment in this context.

Notwithstanding the provisions under Sections 2 and 4 which permit foreign banks to apply for a federal charter in any state which does not prohibit foreign banking under state statute, it is unlikely that a foreign bank will want to make its initial entry and single location of operations in the United States outside New York, California or Illinois. As a practical matter, if interstate banking opportunities are foreclosed for foreign banks, other states would find it difficult to attract foreign banks and, hence, would not reap benefits stemming from the activities of these banks -- benefits that may well accrue to the local economy.

One should not minimize the value of foreign banking growth to the banking community as a whole. In an interview published in the June 1977 issue of Euromoney, Paul Volcker, President of the Federal Reserve Bank of New York, stated that

> Bankers in general - those of the New York mentality anyway - hold that additional competition generates additional business. To the extent that it supports the growth of New York as an international banking centre it's going to be good for everybody. More of the world's business will be focused here, and the more effective and efficient this market is, we'll all be able to make some money out of it. Better here than elsewhere.

I see no reasons why other cities in other states should not enjoy the same potential benefits of expanded foreign banking activity. I feel strongly that a state should be permitted to invite a branch of a foreign bank into its banking communities if this is the only realistic way in which foreign bank entry is likely to take place.

Recent patterns of foreign banking expansion in the U.S. support the contention that regional financial centers may be hurt by the bill. Of the 202 foreign agencies, branches, subsidiaries, and commercial lending companies operating in the U.S. as of December 1976, only 16, or 8 percent, were located outside the money market centers of New York, Chicago, Los Angeles and San Francisco. These 16 offices are located in Massachusetts, the Virgin Islands, Puerto Rico, Georgia, Texas, Hawaii, Oregon and Washington. Thirteen of the sixteen offices located outside the four principal money market centers are direct branches of foreign banks. This suggests that branches are the major hope for increased foreign banking involvement outside these centers. Moreover, as indicated in the table, direct branches are the fastest growing organizational forms of foreign banking in the United States, both in number and total assets.

TABLE

Growth in Number of Offices and Size of Foreign Banking Operations in the United States

	December 1976		November 1972	
	Total Assets (billions)	Number	Total Assets (billions)	Number
All foreign institutions	$ 75.8	202	$ 24.3	104
Agencies	30.5	91	13.6	50
Branches	27.7	70	5.3	26
Subsidiaries	15.7	36	4.1	25
Commercial lending companies	1.9	5	1.3	3

Nine of the ten foreign banking organizations that do operate outside money market centers are part of foreign banking "families" that also have foreign banking offices in the States of New York, California and Illinois. This implies that the tendency is to geographically diversify foreign banking operations once banking operations have already been established in the principal centers. While this multi-state diversification is grandfathered under the proposed bill, the provisions of Section 5(a) that require a foreign bank to select a home office state would discourage similar diversification in the future.

Nonbanking Activities of Foreign Banks

Section 8 of H. R. 7325 subjects foreign banks' domestic agencies, branches, commercial lending companies and their affiliates to the provisions of the Bank Holding Company Act of 1956 as amended in 1970. Generally, nonbanking activities which were commenced or acquired prior to December 3, 1974 are grandfathered indefinitely. Those acquired after that date and which are prohibited for domestic-owned bank holding companies must be divested by December 31, 1985. Different rules apply, however, for the securities activities of foreign banks. Section 8 of the bill would require divestiture by December 31, 1985 of all securities activities whether commenced after the grandfather date or not. It would, however, permit foreign banks' securities affiliates to continue to engage in securities transactions for individuals and organizations outside U. S. jurisdiction.

When the bill was considered by the Committee last year, it was argued that the provisions applying to securities activities are both discriminatory and anticompetitive. It was felt that this provision is unfair to foreign banks, since large U.S. banks engage in substantial securities activities abroad. Moreover, it was feared that this legislation would prompt retaliation against those U.S. banks which do engage in extensive foreign securities operations. Also, it was argued that by lessening competition in the U.S., the cost of underwriting might be increased and the issuing of new securities made more difficult. Regional stock exchanges felt that they would suffer substantial revenue losses.

Although I understand fully the rationale of the bill as drafted, I believe that it would be fairer and less disruptive to grandfather all existing securities operations of foreign banks. To do so would minimize any likelihood of retaliation and would eliminate the hardship of winding down operations on those institutions which have played by the rules of the game to date. Although this approach would be at odds with the concept of national treatment, the practical effect would be minimal given the limited scope of existing foreign bank securities operations.

Accordingly, I would favor permanent grandfathering of all existing securities activities of foreign banks.

Deposit Insurance Coverage

As my predecessors Frank Wille and Robert Barnett have indicated in previous statements, the FDIC has had serious reservations

about the necessity and desirability of making deposit insurance coverage available for domestic branches of foreign banks. These reservations arose from concern that insufficient legal and regulatory controls could be placed on operations which were not legally separate from their parent. At least five problems were noted:

1. Directors of the foreign bank are not usually subject to U.S. jurisdiction, and domestic branch personnel essential to explain certain transactions can be transferred beyond the reach of U.S. authorities. Also, essential records may be difficult to reach if they are kept at the head office or at branches in other countries.
2. The domestic branch may be subjected to requirements under foreign law or to political and economic decisions of a foreign government which conflict with domestic bank regulatory policies.
3. Administrative enforcement proceedings initiated by domestic regulatory authorities against domestic branch personnel may be frustrated or nullified as a result of lack of jurisdiction over the foreign bank's head office and head office personnel.
4. Many foreign banks are permitted under the law of their headquarter's country to engage in business activities abroad which would not be permitted to banks chartered in this country. Such foreign activities could give rise

to antitrust, conflict of interest, and other legal problems under U.S. law.

5. In the event of insolvency of a foreign bank, it is possible that:

   -- assets could be easily and quickly shifted from the U.S. branch and out of U.S. jurisdiction, while deposits could be shifted to the U.S. branch;

   -- legal obstacles and transactions involving other offices of the foreign bank might prevent FDIC from obtaining the usual subrogation of claims it normally gets from depositors in failed U.S. banks before making payment. Even if adequately subrogated, FDIC's aggregate claim in the failed bank's receivership estate might be jeopardized by foreign laws and procedures;

   -- creditors with claims against other offices of the failed bank -- especially banks holding deposits of the U.S. branch -- could attempt offsets against assets in the U.S. or seek preference based on foreign law.

In addition to such concerns, it was stated that deposit insurance protection is largely unnecessary, insofar as foreign banks' domestic branches engage in "wholesale" international banking activities. Moreover, if foreign banks wish to expand their operations in this country

into the "retail" banking business with the benefit of Federal deposit insurance, they presently have an option to do so under existing law through a domestically incorporated banking subsidiary in those states in which state law permits. Of course, in that event most of the problems outlined above are less important.

Notwithstanding these views, a number of interested parties, including the Federal Reserve System, have strongly argued that some form of deposit insurance coverage should be available to the U. S. branches of foreign banks. The surety bond or pledge of assets method of providing protection similar to deposit insurance coverage in Section 6(a) of H. R. 7325 attempts to respond to these views. In our opinion this solution is less than satisfactory for a number of reasons.

We could mitigate some of the risks listed above by imposing various conditions and restrictions upon the foreign bank under FDIC regulations issued pursuant to the surety bond and pledge of assets provision of the bill. The value of such requirements, of course, depends ultimately upon the ability to physically enforce such requirements by exercising quasi in rem jurisdiction over the foreign bank's domestic assets and/or obligors. Short of a dollar-for-dollar pledge of assets with the FDIC to back up 100 percent of the branch's domestic "insured" deposits, efforts to impose requirements designed to insure the presence in the United States of adequate assets of the foreign bank to cover its domestic liabilities could turn out to be of little real value.

Requiring the domestic branch to maintain a substantial portion of its assets in the custody of a third party and in the form of obligations of domestic obligors or requiring a surety bond to guarantee the presence in the U.S. of a stipulated amount of the foreign bank's assets could prove so onerous or costly for the foreign bank to comply with as to make such restrictions tantamount to a bar against the foreign bank's accepting domestic deposits through a U.S. branch. To the extent that nonmoney market cities have found foreign branches to be the major vehicle of foreign banking entry, the ability of these cities to attract foreign banks into their banking communities in the future could be stifled.

We believe that Section 6 of the bill as drafted is both onerous and impractical. However, in response to the strongly held views of others that some form of deposit insurance coverage is necessary, the Corporation recommends that a modified version of the surety bond and pledge of assets approach presently contained in Section 6 of the bill be combined with regular deposit insurance for such branches and be made available on an optional basis along the following lines:

> SEC. 6.(a) Any branch may become an insured bank under the Federal Deposit Insurance Act (12 U.S.C. 1811-31b) with respect to its domestic deposits, as defined by regulation by the Board of Directors of the Federal Deposit Insurance Corporation, as if such branch were a State nonmember bank. Upon so becoming an insured bank, a Federal branch shall thereafter be treated as if it were a national member bank, and any other branch shall thereafter be treated as if it were a State member bank, for purposes of applying the Federal Deposit Insurance Act to such branch's domestic activities (except that any such branch shall continue to be treated as

a State nonmember bank for purposes of the first sentence of Section 8(a) of that Act providing for voluntary termination of insured bank status). Any branch which becomes an insured bank shall maintain with the Federal Deposit Insurance Corporation, or as the Corporation may otherwise direct, a surety bond or a pledge of assets in such amount and subject to such conditions and rules as the Corporation may prescribe for the purpose of providing some additional protection to the deposit insurance fund against the additional risks entailed in insuring the domestic deposits of a foreign bank whose activities, assets and personnel are in large part outside the jurisdiction of the the United States. In prescribing such rules, however, the Corporation shall, to the maximum extent it considers appropriate, endeavor to avoid imposing requirements on such branches which would place them at an undue competitive disadvantage vis-a-vis domestically incorporated banks with which they compete.

(b) Paragraph (a) of this section shall take effect 180 days after enactment hereof. Within 90 days after enactment and as may be appropriate thereafter, the Corporation shall submit to the Congress its recommendations for amending the Federal Deposit Insurance Act so as to enable the Corporation to implement the provisions of this section in a manner fully consistent with the purposes of that Act.

If foreign banks' domestic branches choose deposit insurance coverage under such a revised Section 6, they would become subject to a much less onerous form of surety bond and pledge of assets requirement which would be designed not to provide each branch's domestic depositors 100 percent protection on a dollar-for-dollar basis, but rather merely to give the Federal deposit insurance fund a measure of protection to compensate for the additional risks to which it would be subjected, as described above, by virtue of insuring the domestic deposits of an entity operating for the most part outside of U. S. jurisdiction. Domestic depositors would be fully protected up to $40,000

just as are depositors in domestic insured banks. We believe that this approach of combining regular deposit insurance coverage with a modified form of the surety bond and pledge of assets requirement would be an acceptable compromise from the Corporation's standpoint which would put foreign banks on as nearly an equal basis as possible with domestic banks while at the same time affording appropriate supplemental protection to the deposit insurance fund roughly commensurate with the added degree of risk included in insuring foreign entities.

It will be noted that this revision of Section 6 would give the FDIC authority to define "domestic deposits" for purposes thereof. It is contemplated that that term would be defined to include deposits of individuals who are citizens or residents of the United States and companies having an appropriate business nexus with this country. It is likely also that such "domestic deposits" would be required to be denominated exclusively in U. S. dollars and payable only in the United States, also including perhaps a requirement that the deposit contract provide that U. S. law govern the depository relationship. Other criteria might also have to be considered from time to time in determining what would be an appropriate insurable "domestic deposit." We would greatly prefer the more flexible approach of defining this term by regulation rather than attempting to do so by statute.

If deposit insurance is made available to domestic branches of foreign banks on this basis, we believe it is imperative that the bill

give the FDIC explicit authority to examine such branches, whether licensed federally or by the states, when necessary in its judgment to assess the potential exposure of the insurance fund arising from insuring the branch's domestic deposits or to ascertain whether the branch is complying in all respects with the pledge of assets/surety bond requirements imposed by the bill. It is contemplated that because of the unique factors involved in insuring foreign bank branches, the FDIC would find it necessary to exercise its power to examine foreign bank branches for the purposes indicated. We have also recommended that such branches be subject to revocation of their insured status under Section 8(a) of our Act (12 U.S.C. 1818(a)). Additionally, the bill should provide that the FDIC be appointed receiver of the branch in the event of its closing and that all the FDIC's financial assistance and liquidation powers under the FDI Act apply to insured domestic branches of foreign banks.

We feel that this proposed change in Section 6 would put foreign banks on as nearly an equal basis as possible with domestic banks while at the same time according appropriate supplemental protection to the deposit insurance fund roughly commensurate with the added degree of risk associated with foreign entities. Our staff will be happy to work with your Committee staff in drafting the appropriate language for amending Section 6 along the lines that we have proposed.

Imposition of Reserve Requirements and Interest Rate Controls

Section 7(a) of H. R. 7325 subjects all branches, agencies and commercial lending companies controlled by foreign banks whose worldwide assets exceed one billion dollars to the reserve requirements and deposit interest rate controls imposed by the Federal Reserve on member banks. Section 7(b) permits the Federal Reserve Board to prescribe rules and regulations governing the access of foreign branches, agencies and commercial lending companies to the clearing, discount and advance facilities of the Federal Reserve System.

While the bill does not require foreign institutions to become members of the Federal Reserve System, these two provisions of Section 7, along with the remaining provisions in the Section, impose upon foreign branches, agencies and commercial lending companies the obligations and benefits of Federal Reserve membership. For all practical purposes, this bill, in effect, requires Federal Reserve membership, even though it is not stated as such.

In my June 20, 1977 testimony before the Subcommittee on Financial Institutions of the Committee on Banking, Housing and Urban Affairs of the Senate, I indicated that, although I have an open mind with respect to the question of universal reserve requirements, I do not believe that the issue of reserve requirements for nonmember institutions should be dealt with on a piecemeal basis. Rather, it seems to me that the relationship to the Federal Reserve System of all banking

institutions which choose not to join the Federal Reserve System should be studied in a systematic and unified fashion. Such a study is, it seems to me, the most effective way to respond to the Federal Reserve's concern with membership attrition. Applying this to the reserve requirement proposals contained in H. R. 7325 would dictate that the relationship of foreign banks, which choose to operate in the United States in one form or another, to the Federal Reserve System should be dealt with in the context of a broader solution to the question of membership.

This approach is, of course, consistent with the principle of national treatment or "nondiscrimination." And, conversely, to require, in effect, Federal Reserve membership for only those domestic affiliates of foreign banks having total assets of more than one billion dollars would represent a deviation from that principle.

Yet, I recognize full well that the principle of national treatment cannot be viewed as an absolute. As I indicated at the outset, that concept should certainly give way before overriding public policy considerations which arise out of special circumstances. In this regard, the Federal Reserve has argued rather strenuously that the operations of relatively large foreign banking institutions pose just such a case and this mandates a departure from the principle of national treatment.

The Federal Reserve has pointed out that from a monetary control standpoint, the operating characteristics of branches and agencies of foreign banks are noteworthy because these institutions generate a substantial portion of their funds from overseas sources,

primarily from the parent or directly related institutions. These funds are not subject to Federal Reserve Regulations D or M. The Federal Reserve fears that this may result in a cost advantage for large foreign institutions vis-a-vis their large U. S. competitors who are members of the Federal Reserve System. More importantly, it is feared that lack of such direct Federal Reserve controls over reserves could impede the effective implementation of monetary policy in the face of massive and precipitous transfers of funds.

Although both these factors represent real concerns, at least two factors suggest that these problems are not sufficiently serious at this time to override the principle of national treatment in this area. It is true that foreign banking activity in the U. S. has grown considerably in recent years; yet its scale remains relatively small. The assets of all foreign banking entities, including state chartered banking subsidiaries, is less than 7 percent of total commercial bank assets. Moreover, the Federal Reserve has stated in previous testimony that foreign banking institutions in the U. S. generally have complied with a Federal Reserve Board request to maintain reserves on increases in net liabilities from abroad which parallel requirements under Regulations D and M.

For my own part, although I acknowledge the validity of the Federal Reserve's argument that operations of foreign banks pose a special case which may give rise to unique problems for the central banker, I am not yet persuaded by the evidence presented that these

potential problems are yet of sufficient magnitude to pose a real risk to the stability of our economy. At the same time, I recognize fully that the question of whether to depart from the principle of "nondiscrimination" on the matter of reserve requirements is a knotty issue on which reasonable men may differ.

With respect to the matter of deposit interest rate controls, I fully support the notion that foreign branches, agencies, and commercial lending companies should be subjected to such controls. As drafted the legislation would, however, vest all such authority in the hands of the Federal Reserve System. Such an approach is appropriate if the Congress chooses, in effect, to require mandatory membership in the Federal Reserve System. However, if the Congress chooses to maintain the option of nonmembership, then administration of such controls vis-a-vis nonmember foreign banking institutions should be vested in the FDIC as it is presently with respect to nonmember domestic institutions.

Imposition of Federal Reporting, Examination and Supervisory Standards

In addition to granting the Comptroller of the Currency regulatory authority over Federal branches, agencies and commercial lending companies, Section 7 of the legislation would provide the Federal Reserve System parallel authority over all the branches, agencies and commercial lending companies chartered under state law. I do not object to the extension of Federal regulatory authority over these institutions because it is

consistent with the principles of a system of federal regulation and national treatment and not because of any dissatisfaction with existing regulation by state authorities. I am not aware of any evidence to date that indicates that state authorities are not totally capable of supervising state-chartered foreign banking subsidiaries and state-licensed branches and agencies. According to former Federal Reserve Board Vice Chairman George Mitchell in his testimony before the Senate Subcommittee on Financial Institutions,

> There is nothing to indicate that foreign banks are abusing their powers in the sense that they are using the opportunities available to them under the present system to engage in any improper or unsound banking practices. On the contrary, it has been the experience of the Board that foreign banks operating in the United States have scrupulously complied with the existing U. S. laws and regulations and have been generally cooperative in their dealings with the Board.

Although I do not object strenuously to the proposed delegation of this authority to the Federal Reserve with respect to state-chartered foreign institutions, I would point out that absent the requirement of mandatory membership, these provisions are inconsistent with the principle of national treatment in that state-chartered nonmember institutions are now supervised by the FDIC. As we indicated earlier, it is our judgment that the existing pattern of federal regulation should be continued absent some indication that it is inadequate. Based on our experience from examining subsidiaries of foreign banks, we feel that it is useful and important for the FDIC to have its hand in regulation of foreign operations and that we can do this job well.

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