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Talking Points

before the

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by

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## Introduction:

I am very pleased to be here. It is always better for those who differ to try to reconcile or understand each other's positions. The events of last weekend in the Middle East are an example of that principle. But I feel much more comfortable than those engaged in that difficult discussion. The reason is very simple. Neither the Federal Reserve nor I want a foreign banking bill that is unfair or treats foreign banks wishing to establish operations in the United States differently than American banks. That should be an agreed principle. It is what we have hoped to achieve. Neither of us has been successful so far. And we must renew our efforts to seek reasonable and fair legislation. If we are not successful, we will suffer from a discriminatory law now or a worse law later. We regulate banks very carefully in the United States. There is no possibility that your banks will escape Federal oversight and regulation indefinitely because all American commercial banks are subject to some form of Federal Government rules.

## Legislative Sponsorship:

The Federal Reserve with support of the Administration and Congressional leaders has been proposing a Foreign Bank Bill for three or four years. Last year, the House of Representatives passed such a Bill, but it was not taken up in the Senate before the 94th Congress adjourned. This year the Subcommittee of the House Banking Committee passed a new bill. It will be taken up in the House early in 1978. Plans are already announced. I expect the Senate to take up the bill if the House completes its work on the measure. The issue is too well publicized to fade away because:

1. Our Congress is keenly interested in multinational banking in the U.S. and overseas. International financial flows of funds and credit, like international trade, and economic progress worldwide are on everyone's mind. Money markets are global. The strength of the dollar is of considerable importance to us.

2. Foreign banks have come to the U.S. in impressive numbers. More are coming, and those there are expanding. They are of growing importance in our money centers and yet they are outside the sphere of central bank monetary policy operations.
3. There are 50 States in our union. We did not become an industrial power by leaving all regulation of commerce and finance to the individual States. A Federal Act will assure a national policy towards foreign banks for your benefit as much as ours.
4. Our banking system is uniquely diverse and complex. Our regulations, both Federal and State, are equally so, but they have worked well since the depression of the 1930's. There is a tradition in the public interest to assure the safety of the banking system, to prevent concentrations of economic power, and to restrict banks to activities that are closely related to banking. Your segment of our banking industry is too large and important to escape attention.

The Federal Reserve Proposals:

All of the legislation that the Federal Reserve has recommended or supported has been guided by the objective of achieving fair national treatment for foreign banks. It is never easy to incorporate an unregulated segment of an industry into a regulatory structure, but we have tried to firmly adhere to the principle of national treatment in the original legislation. First, we provided for Federal chartering of foreign banks for those who wished to come here under Federal charters rather than State charters. We included provisions to permit foreign banks to establish Federally chartered branches and agencies as our own banks can. We provided measures to allow foreign bank holding companies that are not set up according

to our laws to freely engage in banking in the U.S. while retaining activities that would be prohibited to our banks. We proposed the grandfathering of all existing multi-State activities of foreign banks. We strongly supported the grandfathering of the securities affiliates that have been established in the U.S. We carefully prepared the Act to make certain that a foreign bank coming to the U.S. would do so under guidelines established by national policy in national legislation in order that there would be clear and appropriate rules for foreign banks in all 50 States.

We proposed that large banks become members of the Federal Reserve System subject to our regulations and that they qualify to receive the privileges of membership.

Since virtually all of our commercial banks are insured under a Federal Deposit Insurance Corporation plan, we also proposed that an alternative plan especially tailored for foreign banks be required.

Finally, we suggested, quite understandably, that foreign banks have the same powers for organizing branches and agencies that are available to American banks.

Clearly, these latter points are the controversial issues between us, and I will be glad to answer questions on each item. But let me say I know of no central bank that cannot impose its monetary and credit policies on its domestic banks. I know of no incorporated American bank of a true commercial composition that is not Federally insured. And I know of no American bank today that has the power to branch throughout the 50 States.

#### The Present Draft Bill:

The present draft bill yet to be considered by the full House Banking Committee will satisfy neither of us. The Subcommittee's draft refused to grant permanent grandfathering of securities affiliates proposing that their activities be ended by 1985. The specific language of the bill indicates that after 1985 securities business of foreign banks would be

restricted to that permissible for national banks in the U.S. At present, national banks in the U.S. cannot own securities affiliates. You know that the Federal Reserve Board has strongly recommended permanent grandfathering of all existing nonbanking activities because that is the only way we see to fairly apply national treatment to our foreign friends. We will work hard to reverse the action of the Subcommittee, but I have some concern because this will not be easy.

State banking authorities in the U.S. have succeeded in convincing their Congressional representatives that State-chartered foreign banks should be permitted to have branches and agencies in any State in the Union and that any restrictions on inter-State branching would apply only to foreign banks that apply for Federal charters. Obviously, no one will seek a Federal charter on such a basis. Further, State law will cover those of you who wish to establish branches or agencies in a particular State and you can conceivably be denied admission as well as welcomed. Under the bill we proposed, you would be free of the difference in such State laws.

The Congress also amended our request for equal deposit insurance coverage by suggesting that it only apply if the States so require it. Not all States do require deposit insurance. But our system is so pervasive that it does now indeed cover essentially all commercial banks and certainly all member commercial banks. There is a cost to this which our own institutions must bear, and there is another advantage to the Federal regulatory authorities. Rarely do we liquidate banks that have gotten into difficulty. But the powers of the Deposit Insurance Corporation are such that they are able to arrange mergers and acquisitions of failing banks without suffering the dire economic consequences that leave depositors and borrowers without banking facilities in the event of bank failure.

The question of monetary and credit controls are near and dear to the hearts of all central bankers. We have attempted to relax our original 1974 proposal significantly. At that time, we would have required membership in the Federal Reserve System of all banks

with more than \$500,000 of worldwide deposits. The present bill provides for membership of those banks with worldwide deposits of a billion dollars, but it limits that requirement to Federally chartered foreign banks. We have really streamlined our requests by recommended an associate form of membership offering the Federal Reserve's services that our members enjoy as well as requiring the typical reserves that all large money center banks keep with us. Parity in rules for large foreign banks and large American banks is the point at issue here, and I won't belabor it because I doubt that there is any central banker in your country or elsewhere who would think it unusual that we have such powers when our own currency and our domestic monetary system are involved.

Conclusion:

I hope we will have a chance to discuss your concerns here. It seems to me that the European Community Banking Federation meeting is an ideal forum to debate these points. I am deeply grateful to President Haeusgen for inviting me to Luxembourg because there are some difficult days ahead in our legislature. Chairman St Germain of the Subcommittee on Financial Institutions Supervision, Regulation and Insurance has assured me on the day I left the U.S. that the entire matter would be debated thoroughly when this session of Congress reconvenes in late January. He has told me that he fears the intent and purpose of the bill has been changed by the amendments, and I suspect that none of us would be satisfied with the present Committee draft.

At the Central Bank and in the Administration, we have a considerable challenge in impressing on all State banking authorities the need for a fair and appropriate bill. This is always a most difficult matter in my country, but I am not disheartened. The world is too small and all of us have too much interdependence both in trade and finance to avoid continuing efforts to establish fair and conforming statutes and regulations between our countries in all matters of commerce and finance. It seems essential that Americans have a fair national policy toward foreign banks and I earnestly hope we can achieve this goal.

Thank you.