

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS

September 4, 1963

**REVISION OF REGULATION M AND AMENDMENT
TO REGULATION H**

**To All Member Banks in the
Eleventh Federal Reserve District:**

Effective August 1, 1963, the Board of Governors of the Federal Reserve System adopted a revision of Regulation M affecting foreign branches of national banks. Under Section 25 of the Federal Reserve Act the Board may authorize national banks to establish branches abroad for the furtherance of United States foreign commerce.

The new Regulation is designed primarily to implement an amendment to Section 25 of the Act pursuant to Public Law 87-588, which empowered the Board to issue regulations authorizing foreign branches of national banks to exercise additional powers (with certain exceptions) which are usual in connection with banking business abroad, and to simplify the procedure under which a national bank may establish additional branches in a particular foreign country.

The Board also adopted on August 1, 1963, an amendment to Sections 208.8(d) and (e) of Regulation H to conform the procedure under which a member State bank may establish branches abroad to that set forth with respect to national banks in the revision of Regulation M.

Enclosed are copies of the revised Regulation M and the amendment to Regulation H for insertion in ring binders containing the Regulations of the Board of Governors and the Bulletins of this bank. The existing copy of Regulation M, effective August 14, 1937, should be destroyed.

Yours very truly,

Watrous H. Irons

President

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

FOREIGN BRANCHES OF NATIONAL BANKS



REGULATION M
(12 CFR PART 213)

As revised effective August 1, 1963



INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the district in which the inquiry arises.

REGULATION M

(12 CFR PART 213)

Revised effective August 1, 1963

FOREIGN BRANCHES OF NATIONAL BANKS *

SECTION 213.1—AUTHORITY AND SCOPE

Pursuant to authority conferred upon it by section 25 of the Federal Reserve Act † (the "Act"), as amended (12 U.S.C. 601-604a), the Board of Governors of the Federal Reserve System (the "Board") prescribes the following regulations relating to foreign branches of national banks.

SECTION 213.2—DEFINITIONS

For the purposes of this part—

(a) "Foreign branch" means any branch established by a national bank pursuant to section 25 of the Act.

(b) "Foreign country" or "country" includes any foreign nation or colony, dependency, or possession thereof, any overseas territory, dependency, or insular possession of the United States, or the Commonwealth of Puerto Rico.

SECTION 213.3—ESTABLISHING FOREIGN BRANCHES

A foreign branch may be established with prior Board permission. If a national bank has established a branch in a foreign country, it may, unless otherwise advised by the Board, establish other branches in that country after thirty days' notice to the Board with respect to each such branch.

SECTION 213.4—FURTHER POWERS OF FOREIGN BRANCHES

In addition to its other powers, a foreign branch may, subject to § 213.5 and *so far as usual in connection with the transaction of the business of banking in the places where it shall transact business:*

(a) Guarantee customers' debts or otherwise agree for their benefit to make payments on the occurrence of readily ascertainable events,¹ if the guarantee or agreement specifies its maximum monetary liability thereunder; but, except to the extent secured with respect

* The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 213; cited as 12 CFR Part 213.

† Pertinent portions of this section are printed in the Appendix.

¹ Including, but not limited to, such types of events as nonpayment of taxes, rentals, customs duties, or costs of transport and loss or nonconformance of shipping documents.

thereto, no national bank may have such liabilities outstanding (1) in an aggregate amount exceeding 50 per cent of its capital and surplus or (2) for any customer in excess of the amount by which 10 per cent of its capital and surplus exceeds the aggregate of such customer's "obligations" to it which are subject to any limitation under section 5200 of the Revised Statutes (12 U.S.C. 84);

(b) Accept drafts or bills of exchange drawn upon it, which shall be treated as "commercial drafts or bills" for the purposes of paragraphs (c), (d), and (e) of § 203.1 of Part 203 (Reg. C);

(c) Acquire and hold securities (including certificates or other evidences of ownership or participation) of the central bank, clearing houses, governmental entities, and development banks of the country in which it is located, unless after such an acquisition the aggregate amount invested by the branch in such securities (exclusive of securities held as required by the law of that country or as authorized under section 5136 of the Revised Statutes (12 U.S.C. 24)) would exceed one per cent of its total deposits on the preceding year-end call report date (or on the date of such acquisition in the case of a newly established branch which has not so reported);

(d) Underwrite, distribute, buy, and sell obligations of the national government of the country in which it is located;² but no bank may hold, or be under commitment with respect to, obligations of such a government as a result of underwriting, dealing in, or purchasing for its own account in an aggregate amount exceeding 10 per cent of its capital and surplus;

(e) Take liens or other encumbrances on foreign real estate in connection with its extensions of credit, whether or not of first priority and whether or not such real estate is improved or has been appraised;

(f) Extend credit to an executive officer of the branch in an amount not to exceed \$20,000 or its equivalent in order to finance the acquisition or construction of living quarters to be used as his residence abroad, provided each such credit extension is promptly reported to its home office.

SECTION 213.5—CONDITIONS

(a) Nothing in § 213.4 shall authorize a foreign branch to engage in the general business of producing, distributing, buying, or selling goods, wares, or merchandise or, except as permitted by §213.4(d), to engage or participate, directly or indirectly, in the business of underwriting, selling, or distributing securities.

(b) The continued or prospective exercise of any power under § 213.4 shall be subject to any notice interpreting or applying the terms of this part that a national bank may receive from the Board, and such bank shall cause its foreign branches to comply therewith;

² Including obligations issued by any agency or instrumentality, and supported by the full faith and credit, of such government.

such branches may, however, unless the Board specifies otherwise, complete transactions undertaken prior to receipt thereof by the national bank.

(c) The Board may from time to time require a national bank to submit information regarding compliance with this part.

SECTION 213.6—SUSPENDING OPERATIONS DURING DISTURBED
CONDITIONS

The officer in charge of a foreign branch may suspend its operations during disturbed conditions which, in his judgment, make conduct of such operations impracticable; but every effort shall be made before and during such suspension to serve its depositors and customers. Full information concerning any such suspension shall be promptly reported to the branch's home office, which shall immediately send a copy thereof to the Board through the Federal Reserve Bank of its district.

APPENDIX
STATUTORY PROVISIONS

Section 25 of the Federal Reserve Act (12 U.S.C. 601-604a) reads in part as follows:

SEC. 25. Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Board of Governors of the Federal Reserve System for permission to exercise, upon such conditions and under such regulations as may be prescribed by the said board, either or both of the following powers:

First. To establish branches in foreign countries or dependencies or insular possessions of the United States for the furtherance of the foreign commerce of the United States, and to act if required to do so as fiscal agents of the United States.

* * * * *

Such application shall specify the name and capital of the banking association filing it, the powers applied for, and the place or places where the banking or financial operations proposed are to be carried on. The Board of Governors of the Federal Reserve System shall have power to approve or to reject such application in whole or in part if for any reason the granting of such application is deemed inexpedient, and shall also have power from time to time to increase or decrease the number of places where such banking operations may be carried on.

Every national banking association operating foreign branches shall be required to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and every member bank investing in the capital stock of banks or corporations described above shall be required to furnish information concerning the condition of such banks or corporations to the Board of Governors of the Federal Reserve System upon demand, and the Board of Governors of the Federal Reserve System may order special examinations of the said branches, banks, or corporations at such time or times as it may deem best.

* * * * *

Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accrued at each branch as a separate item.

Regulations issued by the Board of Governors of the Federal Reserve System under this section, in addition to regulating powers which a foreign branch may exercise under other provisions of law, may authorize such a foreign branch, subject to such conditions and requirements as such regulations may prescribe, to exercise such further powers as may be usual in connection with the transaction of the business of banking in the places where such foreign branch shall transact business. Such regulations shall not authorize a foreign branch to engage in the general business of producing, distributing, buying or selling goods, wares, or merchandise; nor, except to such limited extent as the Board may deem to be necessary with respect to securities issued by any 'foreign state' as defined in section 25 (b) of this Act, shall such regulations authorize a foreign branch to engage or participate, directly or indirectly, in the business of underwriting, selling, or distributing securities.

**MEMBERSHIP OF STATE BANKING INSTI-
TUTIONS IN THE FEDERAL
RESERVE SYSTEM**

AMENDMENT TO REGULATION H
(12 CFR PART 208)

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective August 1, 1963, paragraph (e) of § 208.8 is revoked, and paragraph (d) thereof is amended to read as follows:

SECTION 208.8--ESTABLISHMENT OR MAINTENANCE OF BRANCHES

* * * * *

(d) Foreign branches.— With prior Board approval, a member State bank having capital and surplus of \$1,000,000 or more may establish branches in "foreign countries", as defined in § 213.2(b) of Part 213 (Reg. M).^{8a} If a member State bank has established a branch in such a country, it may, unless otherwise advised by the Board, establish other branches therein after thirty days' notice to the Board with respect to each such branch.

^{8a} Section 213.2(b) of Regulation M defines "foreign countries" to include "any foreign nation or colony, dependency, or possession thereof, any overseas territory, dependency, or insular possession of the United States, or the Commonwealth of Puerto Rico."