



American Revolution Bicentennial

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 75-137
September 11, 1975

FOREIGN ACTIVITIES OF MEMBER BANKS

AMENDMENTS TO REGULATION M REVISED INTERPRETATION OF REGULATION O

TO ALL MEMBER BANKS
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System has amended its Regulation M, "Foreign Activities of National Banks," regarding (a) extensions of credit to executive officers of foreign branches and (b) insurance agency and brokerage activities of foreign branches. In connection with this amendment the Board has also revised an interpretation concerning loans to executive officers of foreign branches.

In submitting the amendments and revised interpretation for publication in the FEDERAL REGISTER, the Board of Governors made the following statement:

On March 27, 1975, a proposal regarding amendments to §213.3(b) was published in the FEDERAL REGISTER (40 F.R. 13524). Interested persons were given until May 9, 1975, to submit written comments, suggestions, or objections. The Board has reviewed all comments received and has decided to adopt the following amendments.

The first amendment concerns the amount of credit which a foreign branch of a member bank may extend to an executive officer of the branch 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. The original amendment proposed by the Board would have increased the loan limit to \$100,000 and did not provide for any circumstances under which that limit could be exceeded. Most comments received from commercial banks in response to the Board's proposal pointed out that in many countries the \$100,000 figure would be inadequate. Although the specific dollar limit has the advantage of uniformity, the Board was concerned that the purpose of the regulation might be frustrated by the wide variations in housing costs from one country to the next. Therefore, in view of the comments received, the Board has adopted an amendment which provides more flexibility to the foreign branches in extending credit to their executive officers. Under the amendment the proposed \$100,000 limit is retained, but it may be exceeded, with the prior specific approval of the parent bank's board of directors, in order to compensate for the disparity of housing costs among countries. The procedures contained in the amendment are similar to those of Section 22(g) of the Federal Reserve Act, 12 U.S.C. 375(a).

In connection with this amendment, the Board is revising Published Interpretation ¶5620, 12 CFR 215.103 in order to (1) reflect the new amendment to Regulation M and (2) correct the references to Section 213.4(f) to read "213.3(b)." ."

The second amendment to Regulation M allows foreign branches of member banks to engage in insurance agency and brokerage activities where such activities are usual in connection with the transaction of the business of banking in the place where the foreign branch transacts its business. The Board has received several comments supporting the proposed amendment. No comments have been received opposing adoption of the amendment. The amendment has thus been adopted without any changes.

In consideration of the comments received and pursuant to Section 25 of the Federal Reserve Act (76 Stat. 388; 12 U.S.C. 604a), 12 CFR Parts 213 and 215 are amended as set forth below. As these amendments are intended to relieve a restriction or grant an exemption, they shall become effective immediately.

The text of the proposed amendments to Regulation M was sent to you with our Circular No. 75-47, dated April 8, 1975.

Enclosed are copies of the amendments and revised interpretation. Any questions regarding the amendments to Regulation M may be directed to this Bank's Regulations Department and the revised interpretation to this Bank's Examination Department.

Sincerely yours,

T. W. Plant

First Vice President

Enclosures (2)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FOREIGN ACTIVITIES OF NATIONAL BANKS

AMENDMENTS TO REGULATION M†

Effective August 25, 1975, Regulation M is amended by revising § 213.3(b) subparagraph (6), by substituting a semicolon for the period at the end of subparagraph (7), and by adding a new subparagraph (8). As amended § 213.3(b) reads as follows:

SECTION 213.3 — FOREIGN BRANCHES

* * * * *

(b) Further powers of foreign branches. In addition to its other powers, a foreign branch may, subject to paragraph (c) of this section and § 213.6 and *so far as usual in connection with the transaction of the business of banking in the places where it shall transact business:*

* * * * *

(6) Extend credit to an executive officer of the branch in an amount not to exceed \$100,000 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; *Provided, however,* That, with the specific prior approval of the parent bank's board of directors, such amount limitation may be exceeded when necessary to meet local housing costs.

(7) Pay to any officer or employee of the branch a greater rate of interest on deposits than that paid to other depositors on similar deposits with the branch;

(8) Act as insurance agent or broker.

† For this Regulation to be complete as amended effective August 25, 1975, retain:
1) Printed Regulation pamphlet containing Regulation M dated January 7, 1971;
2) Amendments, effective May 22, 1975, to Section 213.7(a) and 213.7(b); and
3) This slip sheet.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

LOANS TO EXECUTIVE OFFICERS OF MEMBER BANKS

INTERPRETATION OF REGULATION O

Effective August 25, 1975, paragraphs (a) and (c) of Section 215.103 are amended to read as follows:

SECTION 215.103 — LOANS TO EXECUTIVE OFFICERS OF FOREIGN BRANCHES OF NATIONAL AND STATE MEMBER BANKS

* * * * *

(a) Section 22(g) of the Federal Reserve Act (12 U.S.C. 375a) provides, with certain exceptions, that "no executive officer of any member bank shall borrow from or otherwise become indebted to, any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers * * *." Pursuant to the authority conferred by the ninth paragraph of section 25 of the Federal Reserve Act (12 U.S.C. 604a), which was added to that section by the Act of August 15, 1962 (Public Law 87-588), the Board of Governors in § 213.3(b) of this subchapter (Regulation M) has,

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subject to certain conditions, authorized foreign branches of national banks to make certain home loans to their executive officers. The question has arisen whether foreign branches of State member banks would violate section 22(g) by extending credit to their executive officers to the same extent and subject to the same conditions as foreign branches of national banks. A separate but related question is whether executive officers of foreign branches of national (and State member) banks may borrow from their respective branches as envisaged by § 213.3(b) of this subchapter.

* * * * *

(c) On the basis of the foregoing considerations, the Board of Governors is of the opinion that foreign branches of State member banks would not violate section 22(g) by extending credit to their executive officers subject to the same restrictions and conditions as apply to foreign branches of national banks under § 213.3(b) of this subchapter. * * *

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