

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 79-153  
September 10, 1979

REVISED REGULATION K PAMPHLET  
(International Banking Operations)

and

AMENDMENT TO REGULATION Y  
(Bank Holding Companies and Change in Bank Control)

TO ALL MEMBER BANKS,  
BANK HOLDING COMPANIES,  
AND OTHERS CONCERNED IN THE  
ELEVENTH FEDERAL RESERVE DISTRICT:

By Circular No. 79-108, dated June 25, 1979, the Board of Governors' press release and order announcing the adoption of revised Regulation K was transmitted to you. At that time, you were also advised that Section 225.4(f) of Regulation Y had been incorporated into the new regulation.

Enclosed with this circular is a copy of the new Regulation K pamphlet and printed on the reverse of this circular is an amendment making Regulation Y current. Member banks and others that maintain Regulations Binders are requested to file these documents in their binders. Additional copies of the material will be made available upon request to the Secretary's Office of this Bank, Ext. 6267.

Any questions concerning the enclosed material should be directed to the Attorney's Section of our Holding Company Supervision Department, Ext. 6182.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosure

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

**BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL**

**AMENDMENT TO REGULATION Y†**

Effective June 14, 1979, Section 225.4(f) is deleted from Regulation Y and incorporated into Regulation K (12 CFR Part 211).

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†For this Regulation to be complete as amended effective June 14, 1979, retain:

- 1) Printed Regulation Y pamphlet as amended effective April 5, 1978;
- 2) Amendment effective January 1, 1979, Section 225.4(b);
- 3) Amendment effective March 10, 1979, Section 225.1;
- 4) Amendment effective March 10, 1979, adding Section 225.7;
- 5) Amendment effective April 2, 1979, Section 225.4(a); and
- 6) This slip sheet.

6-14-79

**BOARD OF GOVERNORS**  
of the  
**FEDERAL RESERVE SYSTEM**

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**INTERNATIONAL BANKING OPERATIONS**



**REGULATION K**  
(12 CFR PART 211)

Effective June 14, 1979

Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve District in which the inquiry arises. Forms necessary for the preparation of reports may be obtained from any Federal Reserve Bank.

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## REGULATION K

(12 CFR PART 211)

Effective June 14, 1979

### INTERNATIONAL BANKING OPERATIONS\*

#### SECTION 211.1—AUTHORITY, PURPOSE, AND SCOPE

(a) **Authority.** This Part is issued by the Board of Governors of the Federal Reserve System ("Board") under the authority of the Federal Reserve Act (12 U.S.C. 221 *et seq.*) ("FRA")<sup>†</sup>; the Bank Holding Company Act of 1956 (12 U.S.C. 1841 *et seq.*) ("BHCA")<sup>†</sup>; and the International Banking Act of 1978 (92 Stat. 607) ("IBA")<sup>†</sup>.

(b) **Purpose and scope.** This Part is in furtherance of the purposes of the FRA, the BHCA, and the IBA. It applies to corporations organized under section 25(a) of the FRA (12 U.S.C. 611-631), "Edge Corporations"; to corporations having an agreement or undertaking with the Board under section 25 of the FRA (12 U.S.C. 601-604(a)), "Agreement Corporations"; to member banks with respect to their foreign branches and investments in foreign banks under section 25 of the FRA (12 U.S.C. 601-604(a));<sup>1</sup> and to bank holding companies with respect to the exemption from the non-banking prohibitions of the BHCA afforded by section 4(c)(13) of the BHCA (12 U.S.C. 1843(c)(13)).

#### SECTION 211.2—DEFINITIONS

For the purposes of this Part:

(a) An "affiliate" of an organization means any company of which the organization is a direct or indirect subsidiary, any other direct or indirect

\* This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 211, cited as 12 CFR PART 211.

<sup>†</sup> Statute is printed in the Appendix.

<sup>1</sup> Section 25 of the FRA, which refers to national banking associations, also applies to State member banks of the Federal Reserve System by virtue of section 9 of the FRA (12 U.S.C. 321).

subsidiary of that company, and any direct or indirect subsidiary of the organization.

(b) "Capital and surplus" means paid-in and unimpaired capital and surplus, and includes undivided profits but does not include the proceeds of capital notes or debentures.

(c) "Directly or indirectly" when used in reference to activities or investments of an organization means activities or investments of the organization or of any subsidiary of the organization.

(d) An Edge Corporation is "engaged in banking" if it is ordinarily engaged in the business of accepting deposits in the United States from non-affiliated persons.

(e) "Engaged in business in the United States" means maintaining and operating an office (other than a representative office) or subsidiary in the United States.

(f) "Foreign" or "foreign country" refers to one or more foreign nations, and includes the overseas territories, dependencies, and insular possessions of those nations and of the United States, and the Commonwealth of Puerto Rico.

(g) "Foreign bank" means an organization that: is organized under the laws of a foreign country; engages in the business of banking; is recognized as a bank by the bank supervisory or monetary authority of the country of its organization or principal banking operations; receives deposits to a substantial extent in the regular course of its business; and has the power to accept demand deposits.

(h) "Foreign branch" means an office of an institution which is located outside the country under the laws of which the institution is organized,

at which a banking or financing business is conducted.

(i) "Investment" means the ownership or control of shares, including binding commitments to acquire shares, and other contributions to the capital accounts of an organization, including the holding of an organization's subordinated debt when shares of stock of the organization are also held directly or indirectly by an investor.

(j) "Investor" means an Edge Corporation, Agreement Corporation, bank holding company, or member bank.

(k) "Joint venture" is an organization 20 per cent or more of the voting stock of which is held directly or indirectly by an investor or by an affiliate of the investor but which is not a subsidiary of the investor.

(l) "Listed activities" means the activities specified in section 211.5(d).

(m) "Organization" means a corporation, government, partnership, association, or any other legal or commercial entity.

(n) "Person" means an individual or an organization.

(o) "Portfolio investment" means an investment in an organization other than a subsidiary or joint venture.

(p) "Subsidiary" means an organization more than 50 per cent of the voting stock of which is held directly or indirectly by the investor, or which is otherwise controlled or capable of being controlled by the investor or an affiliate of the investor.

#### SECTION 211.3—FOREIGN BRANCHES OF MEMBER BANKS

(a) **Establishment of foreign branches.** A member bank may establish a foreign branch with prior approval of the Board. Unless otherwise advised by the Board: (1) a member bank that has branches in two or more foreign countries may establish initial branches in additional foreign countries after 60 days' notice to the Board; and (2) without prior approval or prior notice, a member bank may establish additional branches in any foreign country in which it operates one or more branches. Authority to establish branches through prior approval or prior notice shall expire one year from the earliest date on which it could have been ex-

ercised, unless extended by the Board. A member bank shall inform the Board within 30 days of the opening, closing or relocation of a branch and the address of a new or relocated foreign branch.

(b) **Further powers of foreign branches.** In addition to its general banking powers, and to the extent consistent with its charter, a foreign branch of a member bank may engage in the following activities so far as usual in connection with the business of banking in the country where it transacts business:

(1) guarantee customers' debts or otherwise agree for their benefit to make payments on the occurrence of readily ascertainable events,<sup>2</sup> if the guarantee or agreement specifies a maximum monetary liability; but except to the extent that the member bank is fully secured, it may not have liabilities outstanding for any person on account of such guarantees or agreements which when aggregated with other obligations of the same person exceed the limit contained in section 5200 of the Revised Statutes (12 U.S.C. 84);

(2) accept drafts or bills of exchange drawn upon it subject to the amount limitations of section 13 of the FRA (12 U.S.C. 372);

(3) invest in (i) the securities of the central bank, clearing houses, governmental entities, and government-sponsored development banks of the country in which the foreign branch is located, (ii) other debt securities eligible to meet local reserve or similar requirements, and (iii) shares of professional societies, schools, and the like necessary to the business of the branch; however, the branch's total investments under this provision (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)) shall not exceed one per cent of its total deposits on the preceding year-end call report date (or on the date of acquisition in the case of a newly established branch that has not so reported);

(4) underwrite, distribute, buy, and sell obligations of the national government of the country in which the branch is located, obligations of an agency or instrumentality of the national government, and obligations of a municipality or other

<sup>2</sup> "Readily ascertainable events" include, but are not limited to, events such as nonpayment of taxes, rentals, customs duties, or costs of transport and loss or nonconformance of shipping documents.

local or regional governmental entity of the country; however, no member bank may hold, or be under commitment with respect to, obligations of the government or governmental entities of a country as a result of underwriting, dealing, or purchasing for the bank's own account an aggregate amount exceeding 10 per cent of the member bank's capital and surplus;

(5) 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 the real estate is improved or has been appraised, and without regard to maturity or amount limitations or amortization requirements of section 24 of the FRA (12 U.S.C. 371);

(6) extend credit up to \$100,000 or its equivalent to an officer of the bank residing in the country in which the foreign branch is located to finance the acquisition or construction of living quarters to be used as the officer's residence abroad, provided any such credit extension is reported promptly to the branch's home office; however, when necessary to meet local housing costs, such amount may be exceeded with the specific prior approval of the member bank's board of directors;

(7) act as insurance agent or broker;

(8) pay to an employee of the branch, as part of an employee benefit program, a greater rate of interest than that paid to other depositors of the branch; and

(9) engage in repurchase arrangements involving commodities and securities that are the functional equivalent of extensions of credit.

(c) **Other permissible activities.** A member bank that is of the opinion that activities other than those specified in this section are usual in connection with the transaction of the business of banking in the places where its branches transact business may apply to the Board for permission to engage in such activities.

(d) **Reserves.** Reserves shall be maintained against foreign branch deposits when required by Part 204 of this Chapter (Regulation D).

#### SECTION 211.4—EDGE AND AGREEMENT CORPORATIONS

(a) **Organization.** (1) A proposed Edge Corporation shall become a body corporate when the

Board issues a preliminary permit approving its proposed name, articles of association, and organization certificate. The name shall include "international," "foreign," "overseas," or some similar word, but may not resemble the name of another organization to an extent that might mislead or deceive the public. The factors that will be considered by the Board in acting on a proposal to organize an Edge Corporation include:

(i) the financial condition and history of the applicant;

(ii) the general character of its management;

(iii) the convenience and needs of the community to be served with respect to international banking and financing services; and

(iv) the effects of the proposal on competition. The Board will publish in the *Federal Register* notice of any such proposal and will give interested persons an opportunity to express their views on the proposal.

(2) After the Board issues a preliminary permit, the Edge Corporation may elect officers and otherwise complete its organization, invest in obligations of the United States Government, and maintain deposits with banks, but it may not exercise any other powers until the Board has issued a final permit to commence business. No amendment to the articles of association shall become effective until approved by the Board.

(b) **Nature and ownership of shares.** (1) Shares of stock in an Edge Corporation may not include no-par value shares and shall be issued and transferred only on its books and in compliance with section 25(a) of the FRA. The share certificates of an Edge Corporation shall (i) name and describe each class of shares indicating their character and any unusual attributes such as preferred status or lack of voting rights and (ii) conspicuously set forth the substance of (A) limitations upon the rights of ownership and transfer of shares imposed by section 25(a) of the FRA, and (B) rules that the Edge Corporation shall prescribe in its by-laws to ensure compliance with this paragraph. Any change in status of a shareholder that causes a violation of section 25(a) of the FRA shall be reported to the Board as soon as possible, and the Edge Corporation shall take such action as the Board may direct.

(2) One or more foreign or domestic institutions referred to in section 3(f) of the IBA may apply for the Board's prior approval to acquire a



majority of the shares of the capital stock of an Edge Corporation. In acting on an application by a foreign institution that is not subject to the IBA or the BHCA, the Board will impose any conditions that are necessary to prevent undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices in the United States. The aggregate amount invested in Edge Corporations by a foreign institution shall not exceed 10 per cent of the foreign institution's capital and surplus.

(c) **Branches.** (1) With prior Board approval, an Edge Corporation may establish branches in the United States. In acting on a proposal to establish a branch in the United States, the Board will consider the same factors enumerated in section 211.4(a)(1). The Board will publish in the *Federal Register* notice of any proposal to establish a branch in the United States and will give interested persons an opportunity to express their views on the proposal.

(2) An Edge Corporation may establish branches abroad in accordance with the procedures in section 211.3(a).

(d) **Reserve requirements and interest rate limitations.** The deposits of an Edge Corporation are subject to Parts 204 and 217 of this Chapter (Regulations D and Q) in the same manner and to the same extent as if the Edge Corporation were a member bank.

(e) **Permissible activities in the United States.** An Edge Corporation may engage in activities in the United States that are permitted by the sixth paragraph of section 25(a) of the FRA and in such other activities as the Board determines are incidental to international or foreign business. The following activities will ordinarily be considered incidental to an Edge Corporation's international or foreign business:

(1) Deposits from foreign governments and persons. An Edge Corporation may receive in the United States demand, savings, and time deposits (including negotiable certificates of deposits) from foreign governments and their agencies and instrumentalities, persons conducting business principally at their offices or establishments abroad, and individuals residing abroad.

(2) Deposits from other persons. An Edge Corporation may receive in the United States demand,

savings, and time deposits (including negotiable certificates of deposit) if such deposits:

- (i) are to be transmitted abroad;
- (ii) consist of collateral or funds to be used for payment of obligations to the Edge Corporation;
- (iii) consist of the proceeds of collections abroad that are to be used to pay for exported or imported goods or for other costs of exporting or importing or that are to be periodically transferred to the depositor's account at another financial institution;
- (iv) consist of the proceeds of extensions of credit by the Edge Corporation; or
- (v) represent compensation to the Edge Corporation for extensions of credit or services to the customer.

(3) Use of funds in the United States. Funds of an Edge Corporation not currently employed in its international or foreign business, if held or invested in the United States, shall be in the form of cash, deposits with banks, and money market instruments such as bankers' acceptances, obligations of or fully guaranteed by Federal, State, and local governments and their instrumentalities, repurchase agreements, Federal funds sold, and commercial paper.

(4) General activities. Subject to the limitations of section 25(a) of the FRA and section 211.6 of this Part, an Edge Corporation may engage in the following activities to the extent consistent with sound banking practices:

- (i) issue obligations to domestic offices of other banks (including purchases of Federal funds) or to the United States or any of its agencies;
- (ii) incur indebtedness from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof that the Edge Corporation is obligated to repurchase;
- (iii) issue long-term subordinated debt that does not qualify as a "deposit" under Part 204 of this Chapter (Regulation D);
- (iv) finance the following: (A) contracts, projects, or activities performed substantially abroad; (B) the importation into or exportation from the United States of goods, whether direct or through brokers or other intermediaries; (C) the domestic shipment or temporary storage of goods being imported or exported (or accumulated for export);



and (D) the assembly or repackaging of goods imported or to be exported;

(v) finance the costs of production of goods and services for which export orders have been received or which are identifiable as being directly for export;

(vi) assume or acquire participations in extensions of credit, or acquire obligations arising from transactions the Edge Corporation could have financed;

(vii) guarantee a customer's debts or otherwise agree for the customer's benefit to make payments on the occurrence of readily ascertainable events,<sup>3</sup> if the guarantee or agreement specifies the maximum monetary liability thereunder and is related to a type of transaction described in paragraphs (4)(iv) and (4)(v) of this section;

(viii) receive checks, bills, drafts, acceptances, notes, bonds, coupons, and other securities for collection abroad, and collect such instruments in the United States for a customer abroad;

(ix) hold securities in safekeeping for, or buy and sell securities upon the order and for the account and risk of a person;

(x) act as paying agent for securities issued by foreign governments or other entities organized under foreign law;

(xi) act as trustee, registrar, conversion agent, or paying agent with respect to any class of securities issued to finance foreign activities and distributed solely outside the United States;

(xii) make private placements of participations in its investments and extensions of credit; however, except to the extent permissible for member banks under section 5136 of the Revised Statutes (12 U.S.C. 24), no Edge Corporation may otherwise engage in the business of selling or distributing securities in the United States; and

(xiii) buy and sell spot and forward foreign exchange.

(5) Other permissible activities. An Edge Corporation that is of the opinion that other activities in the United States would be incidental to its international or foreign business may apply to the board for such a determination.

<sup>3</sup> "Readily ascertainable events" include, but are not limited to, events such as nonpayment of taxes, rentals, customs duties, or costs of transport and loss or nonconformance of shipping documents.

(f) **Agreement Corporations.** With the prior approval of the Board, a member bank or bank holding company may invest in a Federally or State chartered corporation that has entered into an agreement or undertaking with the Board that it will not exercise any power that is impermissible for an Edge Corporation under this Part.

#### SECTION 211.5—INVESTMENTS IN OTHER ORGANIZATIONS

(a) **General policy.** Activities of investors abroad, whether conducted directly or indirectly, shall be confined to those of a banking or financial nature and those that are necessary to carry on such activities. In doing so, investors shall at all times act in accordance with high standards of banking or financial prudence, having due regard for diversification of risks, suitable liquidity, and adequacy of capital. Subject to these considerations and the other provisions of this section, it is the Board's policy to allow activities abroad to be organized and operated as best meets corporate policies.

(b) **Investment limitations.** (1) An investor, in accordance with the investment procedures described in paragraph (c) of this section, may directly or indirectly:

(i) invest in a subsidiary that engages solely in listed activities or in such other activities as the Board has determined in the circumstances of a particular case are permissible;

(ii) invest in a joint venture provided that, unless otherwise permitted by the Board not more than 10 per cent of the joint venture's consolidated assets or revenues shall be attributable to activities that would not be permissible for a subsidiary;

(iii) make portfolio investments (including securities held in trading or dealing accounts) in an organization if the total direct and indirect portfolio investments in organizations engaged in activities that are not permissible for joint ventures does not at any time exceed 100 per cent of the investor's capital and surplus.<sup>4</sup>

(2) A member bank's direct investments under section 25 of the FRA shall be limited to foreign banks and to foreign organizations formed for the

<sup>4</sup> For this purpose, a direct subsidiary of a member bank is deemed to be an investor.

sole purpose of either holding shares of a foreign bank or performing nominee, fiduciary, or other banking services incidental to the activities of a foreign branch or foreign bank affiliate of the member bank.

(3) Subsidiaries may establish branches in accordance with the procedures set forth in section 211.3(a).

(4) In computing the amount that may be invested in any organization under this section there shall be included any unpaid amount for which the investor is liable and any investments by affiliates.

(5) An investor shall dispose of an investment promptly (unless the Board authorizes retention) if:

(i) the organization invested in (A) engages in the business of underwriting, selling or distributing securities in the United States; (B) engages in the general business of buying or selling goods, wares, merchandise, or commodities in the United States; or (C) transacts business in the United States that is not incidental to its international or foreign business;

(ii) in the case of a subsidiary, it engages in an activity other than that which the Board has determined to be permissible; or in the case of joint venture, it engages in an impermissible activity beyond that described in paragraph (b) (1) (ii) of this section; or

(iii) after notice and opportunity for hearing, the investor is advised by the Board that its investment is inappropriate under the FRA, the BHCA, or this Part.

(c) **Investment procedures.**<sup>5</sup> Direct and indirect investments shall be made in accordance with the general consent, notice, or specific consent procedures contained in this section. The Board may at any time, upon notice, suspend the general consent and notification procedures with respect to any investor or with respect to the acquisition of shares of companies engaged in particular kinds of activities. An investor must receive prior specific consent of the Board for investment in its first subsidiary, its first joint venture, and its first portfolio

<sup>5</sup> When necessary, the general consent and prior notification provisions of this section constitute the Board's approval under the eighth paragraph of section 25(a) of the FRA for investments in excess of the limitations therein based on capital and surplus.

investment unless an affiliate has made such investments. Authority to make investments under prior notice or prior consent shall expire one year from the earliest date on which it could have been exercised, unless extended by the Board.

(1) **General consent.** The Board grants its general consent for the following:

(i) any investment in a joint venture or subsidiary, and any portfolio investment, if: (A) the organization is not engaged in business in the United States; and (B) the total amount invested does not exceed the lesser of (1) \$2 million or (2) five per cent of the investor's capital and surplus in the case of a member bank, bank holding company, or Edge Corporation engaged in banking, or 25 per cent of the investor's capital and surplus in the case of an Edge Corporation not engaged in banking;

(ii) any additional investment in an organization if: (A) the additional investment does not cause the organization to be a direct or indirect subsidiary or joint venture of the investor; and (B) the additional amount invested does not in any calendar year exceed 10 per cent of the investor's historical cost plus dividends for that year. The amount that may be invested under this provision of the general consent may, if not exercised, be carried forward and accumulated for up to five consecutive years; or

(iii) any investment that is acquired from an affiliate at net asset value.

(2) **Prior notification.** An investment in a subsidiary or joint venture that does not qualify under the general consent procedure, may be made after the investor has given 60 days' prior written notice to the Board if the total amount to be invested does not exceed 10 per cent of the investor's capital and surplus. The notification period shall commence at the time the notice is accepted. The Board may, during the notification period, disapprove the investment, suspend the period, or require that an application be filed by the investor for the Board's specific consent.

(3) **Specific consent.** Any investment that does not qualify for either the general consent or the prior notification procedure shall not be consummated without the specific consent of the Board.

(d) **Listed activities.** The Board has determined that the following activities are usual in connection

with the transaction of banking or other financial operations abroad:

- (1) commercial banking;
- (2) financing, including commercial financing, consumer financing, mortgage banking, and factoring;
- (3) leasing real or personal property if the lease serves as the functional equivalent of an extension of credit to the lessee of the property;
- (4) acting as fiduciary;
- (5) underwriting credit life insurance and credit accident and health insurance related to extensions of credit by the investor or its affiliates;
- (6) performing services for other direct or indirect operations of a United States banking organization, including representative functions, sale of long term debt, name saving, and holding assets acquired to prevent loss on a debt previously contracted in good faith;
- (7) holding the premises of a branch of an Edge Corporation or member bank or the premises of a direct or indirect subsidiary;
- (8) providing investment, financial or economic advisory services;
- (9) general insurance brokerage;
- (10) data processing;
- (11) managing a mutual fund if the fund's shares are not sold or distributed in the United States or to United States residents and the fund does not exercise managerial control over the firms in which it invests;
- (12) performing management consulting services provided that such services when rendered with respect to the United States market shall be restricted to the initial entry;
- (13) underwriting, distributing, and dealing in debt and equity securities outside the United States, provided that no underwriting commitment by a subsidiary of an investor for shares of an issuer may exceed \$2 million or represent 20 per cent of the capital and surplus or voting stock of an issuer unless the underwriter is covered by binding commitments from subunderwriters or other purchasers;
- (14) engaging in other activities that the Board has determined by regulation or order are closely related to banking under section 4(c) (8) of the BHCA.

An investor that is of the opinion that other activities are usual in connection with the transaction of the business of banking or other financial operations abroad and are consistent with the FRA or the BHCA may apply to the Board for such a determination.

(e) **Debts previously contracted.** Shares of stock or other evidences of ownership acquired to prevent a loss upon a debt previously contracted in good faith shall not be subject to the limitations or procedures of this section; however, the shares or evidences of ownership shall be disposed of promptly, but in no event later than two years after their acquisition unless the Board authorizes retention for a longer period.

#### SECTION 211.6—LENDING LIMITS AND CAPITAL REQUIREMENTS

(a) **Acceptances of Edge Corporations.** An Edge Corporation shall be and remain fully secured for (i) all acceptances outstanding in excess of twice its capital and surplus; and (ii) all acceptances outstanding for any one person in excess of 10 per cent of its capital and surplus. These limitations shall not apply (i) if the excess represents the international shipment of goods and the Edge Corporation is fully covered by primary obligations to reimburse it that are also guaranteed by banks or bankers, or (ii) if the Edge Corporation is covered by participation agreements from other banks.

(b) **Liabilities of one person.** (1) Except as the Board may otherwise specify:

(i) the liabilities of any person to an Edge Corporation engaged in banking and to its direct or indirect subsidiaries shall not exceed 10 per cent of the Edge Corporation's capital and surplus;

(ii) the total liabilities of any person to a majority owned foreign bank or Edge Corporation subsidiary of a member bank, and to majority owned subsidiaries of such foreign bank or Edge Corporation when combined with liabilities of the same person to the member bank and its majority owned subsidiaries, shall not exceed the member bank's limitation on loans to one person.

(2) "Liabilities" includes: ineligible acceptances outstanding; obligations for money borrowed; investments in another organization (valued at original cost) except where that organization is a

direct or indirect subsidiary; unsecured obligations resulting from the issuance of guarantees or similar agreements; underwriting commitments to an issuer of securities; in the case of a partnership or firm, obligations of its members, in the case of a corporation, obligations incurred for its benefit by other corporations that it controls; and in the case of a foreign government, the liabilities of its departments or agencies deriving their current funds principally from general tax revenues.

(3) The limitations of this paragraph do not apply to:

(i) deposits of banks and Federal funds purchased;

(ii) bills or drafts drawn in good faith against actual goods and on which two or more parties are liable;

(iii) any acceptance that has not matured and is not held by the acceptor;

(iv) obligations to the extent secured by cash collateral; or

(v) obligations to the extent supported by the full faith and credit of the following: (A) the United States or any of its departments, agencies, establishments, or wholly-owned corporations (including obligations to the extent insured against foreign political and credit risks by the Export-Import Bank of the United States or the Foreign Credit Insurance Association), the International Bank for Reconstruction and Development, the International Finance Corporation, the International Development Association, the Inter-American Development Bank, or the Asian Development Bank; (B) any organization if at least 25 per cent of such an obligation or of the total credit is also supported by the full faith and credit of, or participated in by any institution designated in paragraph (b) (3) (v) (A) of this section in such manner that default to the lender will necessarily include default to that entity. The total liabilities of such person shall at no time exceed 100 per cent of the capital and surplus of the lender or the parent Edge Corporation.

(c) **Loans to foreign banks.** A member bank that holds directly or indirectly shares in a foreign bank may make loans to that foreign bank without regard to section 23A of the FRA.

(d) **Capitalization.** An Edge Corporation shall at all times be capitalized in an amount that is

adequate in relation to the scope and character of its activities. In the case of an Edge Corporation engaged in banking, its capital and surplus shall be not less than seven per cent of risk assets. For this purpose, risk assets shall be deemed to be all assets on a consolidated basis other than cash, amounts due from banking institutions in the United States, United States Government securities, and Federal funds sold.

#### SECTION 211.7—SUPERVISION AND REPORTING

(a) **Supervision.** (1) Investors shall supervise and administer their foreign branches and subsidiaries in such a manner as to ensure that their operations conform to high standards of banking and financial prudence. Effective systems of records, controls, and reports shall be maintained to keep management informed of their activities and condition. Such systems should provide, in particular, information on risk assets, liquidity management, and operations of controls and conformance to management policies. Reports on risk assets should be sufficient to permit an appraisal of credit quality and assessment of exposure to loss, and for this purpose provide full information on the condition of material borrowers. Reports on the operations of controls should include the internal and external audits of the branch or subsidiary.

(2) Investors shall maintain sufficient information with respect to joint ventures to keep informed of their activities and condition. Such information shall include audits and other reports on financial performance, risk exposure, management policies, and operations of controls. Complete information shall be maintained on all transactions with the joint venture by the investor and its affiliates.

(3) The reports and information specified in paragraphs (1) and (2) shall be made available to examiners of the appropriate bank supervisory agencies.

(b) **Examinations.** Examiners appointed by the Board shall examine each Edge Corporation once a year. An Edge Corporation shall make available to examiners sufficient information to assess its condition and operations and the condition and activities of any organization whose shares it holds.



(c) **Reports.** (1) Each Edge Corporation shall make at least two reports of condition annually to the Board at such times and in such form as the Board may prescribe. The Board may require that statements of condition or other reports be published or made available for public inspection.

(2) Edge Corporations, member banks, and bank holding companies shall file such reports on their foreign operations as the Board may require.

(3) A member bank, Edge Corporation or a bank holding company shall report within 30 days any acquisition or disposition of shares in a manner prescribed by the Board.

(d) **Filing procedures.** Unless otherwise directed by the Board, applications, notifications, and reports required by this Part shall be filed with the Federal Reserve Bank of the district in which the parent bank or bank holding company is located, or if none, the Federal Reserve Bank of the district in which the applying or reporting institution is located. Instructions and forms for such applications, notifications and reports are available from the Federal Reserve Bank.

(e) **Transition.** (1) Transactions that have been consummated or activities engaged in pursuant to the Board's general or specific consent prior to June 8, 1979, may be retained or continued. Conditions imposed or undertakings in connection with such investments that are inconsistent with this Part shall be superseded by this Part.

(2) Extensions of credit in excess of the limitations of section 211.6(b) that were outstanding on June 8, 1979, may remain outstanding until the date of maturity.

(3) Edge Corporations whose accounts or investments do not conform to sections 211.6(d) or 211.5(b) of this Part on June 14, 1979, shall conform such accounts and investments by June 14, 1981.

#### STATUTORY APPENDIX

Section 25 of the Federal Reserve Act (12 U.S.C. 601-604a) reads in part as follows:<sup>1</sup>

<sup>1</sup> Paragraph numbers and captions have been added to facilitate reference.

#### Capital and surplus required to exercise powers

**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, the following powers:

[U. S. C., title 12, sec. 601.]

#### Establishment of foreign branches

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.

[U. S. C., title 12, sec. 601.]

#### Purchase of stock in corporations engaged in foreign banking

Second. To invest an amount not exceeding in the aggregate ten per centum of its paid-in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any State thereof, and principally engaged in international or foreign banking, or banking in a dependency or insular possession of the United States either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions.

[U. S. C., title 12, sec. 601.]

#### Acquisition of ownership of foreign banks

Third. To acquire and hold, directly or indirectly, stock or other evidences of ownership in one or more banks organized under the law of a foreign country or a dependency or insular possession of the United States and not engaged, directly or indirectly, in any activity in the United States except as, in the judgment of the Board of Governors of the Federal Reserve System, shall be incidental to the international or foreign busi-

ness of such foreign bank, and, notwithstanding the provisions of section 23A of this Act, to make loans or extensions of credit to or for the account of such bank in the manner and within the limits prescribed by the Board by general or specific regulation or ruling.

[U. S. C., title 12, sec. 601.]

\* \* \*

#### **Application for permission to exercise powers**

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.

[U. S. C., title 12, sec. 601.]

#### **Examination and reports of condition**

Every national banking association operating foreign branches shall be required to furnish information concerning the conditions 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.

[U. S. C., title 12, sec. 602.]

#### **Agreement to restrict operations**

Before any national bank shall be permitted to purchase stock in any such corporation the said corporation shall enter into an agreement or undertaking with the Board of Governors of the Federal Reserve System to restrict its operations or conduct its business in such manner or under

such limitations and restrictions as the said board may prescribe for the place or places wherein such business is to be conducted. If at any time the Board of Governors of the Federal Reserve System shall ascertain that the regulations prescribed by it are not being complied with, said board is hereby authorized and empowered to institute an investigation of the matter and to send for persons and papers, subpoena witnesses, and administer oaths in order to satisfy itself as to the actual nature of the transactions referred to. Should such investigation result in establishing the failure of the corporation in question, or of the national bank or banks which may be stockholders therein, to comply with the regulations laid down by the said Board of Governors of the Federal Reserve System, such national banks may be required to dispose of stock holdings in the said corporation upon reasonable notice.

[U. S. C., title 12, sec. 603.]

#### **Accounts of foreign branches**

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.

[U. S. C., title 12, sec. 604.]

#### **Additional banking powers authorized**

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.

[U. S. C., title 12, sec. 604a.]

Section 25(a) of the Federal Reserve Act (12 U.S.C. 611-631) reads as follows:

#### **Organization**

Sec. 25. (a) Corporations to be organized for the purpose of engaging in international or foreign banking or other international or foreign financial operations, or in banking or other financial operations in a dependency or insular possession of the United States, either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions as provided by this section, and to act when required by the Secretary of the Treasury as fiscal agents of the United States, may be formed by any number of natural persons, not less in any case than five: *Provided*, That nothing in this section shall be construed to deny the right of the Secretary of the Treasury to use any corporation organized under this section as depositaries in Panama and the Panama Canal Zone, or in the Philippine Islands and other insular possessions and dependencies of the United States.

"The Congress hereby declares that it is the purpose of this section to provide for the establishment of international banking and financial corporations operating under Federal supervision with powers sufficiently broad to enable them to compete effectively with similar foreign-owned institutions in the United States and abroad; to afford to the United States exporter and importer in particular, and to United States commerce, industry, and agriculture in general, at all times a means of financing international trade, especially United States exports; to foster the participation by regional and smaller banks throughout the United States in the provision of international banking and financing services to all segments of United States agriculture, commerce, and industry, and, in particular small business and farming concerns; to stimulate competition in the provision of inter-

national banking and financing services throughout the United States; and, in conjunction with each of the preceding purposes, to facilitate and stimulate the export of United States goods, wares, merchandise, commodities, and services to achieve a sound United States international trade position. The Board of Governors of the Federal Reserve System shall issue rules and regulations under this section consistent with and in furtherance of the purposes described in the preceding sentence, and, in accordance therewith, shall review and revise any such rules and regulations at least once every five years, the first such period commencing with the effective date of rules and regulations issued pursuant to section 3(a) of the International Banking Act of 1978, in order to ensure that such purposes are being served in light of prevailing economic conditions and banking practices."

[U. S. C., title 12, sec. 611.]

#### **Articles of association**

Such persons shall enter into articles of association which shall specify in general terms the objects for which the association is formed and may contain any other provisions not inconsistent with law which the association may see fit to adopt for the regulation of its business and the conduct of its affairs.

[U. S. C., title 12, sec. 612.]

#### **Exception of articles of association; contents of organization certificate**

Such articles of association shall be signed by all of the persons intending to participate in the organization of the corporation and, thereafter, shall be forwarded to the Board of Governors of the Federal Reserve System and shall be filed and preserved in its office. The persons signing the said articles of association shall, under their hands, make an organization certificate which shall specifically state:

First. The name assumed by such corporation, which shall be subject to the approval of the Board of Governors of the Federal Reserve System.

Second. The place or places where its operations are to be carried on.

Third. The place in the United States where its home office is to be located.



Fourth. The amount of its capital stock and the number of shares into which the same shall be divided.

Fifth. The names and places of business or residence of the persons executing the certificate and the number of shares to which each has subscribed.

Sixth. The fact that the certificate is made to enable the persons subscribing the same, and all other persons, firms, companies, and corporations, who or which may thereafter subscribe to or purchase shares of the capital stock of such corporation, to avail themselves of the advantages of this section.

[U. S. C., title 12, sec. 613.]

#### **Filing organization certificate; issuance of permit**

The persons signing the organization certificate shall duly acknowledge the execution thereof before a judge of some court of record or notary public, who shall certify thereto under the seal of such court or notary, and thereafter the certificate shall be forwarded to the Board of Governors of the Federal Reserve System to be filed and preserved in its office. Upon duly making and filing articles of association and an organization certificate, and after the Board of Governors of the Federal Reserve System has approved the same and issued a permit to begin business, the association shall become and be a body corporate, and as such and in the name designated therein shall have power to adopt and use a corporate seal, which may be changed at the pleasure of its board of directors; to have succession for a period of twenty years unless sooner dissolved by the act of the shareholders owning two-thirds of the stock or by an Act of Congress or unless its franchises become forfeited by some violation of law; to make contracts; to sue and be sued, complain, and defend in any court of law or equity; to elect or appoint directors, and, by its board of directors, to appoint such officers and employees as may be deemed proper, define their authority and duties, require bonds of them, and fix the penalty thereof, dismiss such officers or employees, or any thereof, at pleasure and appoint others to fill their places; to prescribe, by its board of directors, by-laws not inconsistent with law or with the regulations of the Board of

Governors of the Federal Reserve System regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers and employees appointed, its property transferred, and the privileges granted to it by law exercised and enjoyed.

[U. S. C., title 12, sec. 614.]

#### **Powers; regulations of Board of Governors of the Federal Reserve System**

Each corporation so organized shall have power, under such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe:

[U. S. C., title 12, sec. 615.]

#### **Banking powers**

(a) To purchase, sell, discount, and negotiate, with or without its indorsement or guaranty, notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness; to purchase and sell with or without its indorsement or guaranty, securities, including the obligations of the United States or of any State thereof but not including shares of stock in any corporation except as herein provided; to accept bills or drafts drawn upon it subject to such limitations and restrictions as the Board of Governors of the Federal Reserve System may impose; to issue letters of credit; to purchase and sell coin, bullion, and exchange; to borrow and to lend money; to issue debentures, bonds, and promissory notes under such general conditions as to security and such limitations as the Board of Governors of the Federal Reserve System may prescribe, to receive deposits outside of the United States and to receive only such deposits within the United States as may be incidental to or for the purpose of carrying out transactions in foreign countries or dependencies or insular possessions of the United States; and generally to exercise such powers as are incidental to the powers conferred by this Act or as may be usual, in the determination of the Board of Governors of the Federal Reserve System, in connection with the transaction of the business of banking or other financial operations

in the countries, colonies, dependencies, or possessions in which it shall transact business and not inconsistent with the powers specifically granted herein. Nothing contained in this section shall be construed to prohibit the Board of Governors of the Federal Reserve System, under its power to prescribe rules and regulations, from limiting the aggregate amount of liabilities of any or all classes incurred by the corporation and outstanding at any one time. Whenever a corporation organized under this section receives deposits in the United States authorized by this section it shall carry reserves in such amounts as the Board of Governors of the Federal Reserve System may prescribe, for member banks of the Federal Reserve System.

[U. S. C., title 12, sec. 615.]

#### **Branches**

(b) To establish and maintain for the transaction of its business branches or agencies in foreign countries, their dependencies or colonies, and in the dependencies or insular possessions of the United States, at such places as may be approved by the Board of Governors of the Federal Reserve System and under such rules and regulations as it may prescribe, including countries or dependencies not specified in the original organization certificate.

[U. S. C., title 12, sec. 615.]

#### **Ownership of stock in other corporations**

(c) With the consent of the Board of Governors of the Federal Reserve System to purchase and hold stock or other certificates of ownership in any other corporation organized under the provisions of this section, or under the laws of any foreign country or a colony or dependency thereof, or under the laws of any State, dependency, or insular possession of the United States but not engaged in the general business of buying or selling goods, wares, merchandise or commodities in the United States, and not transacting any business in the United States except such as in the judgment of the Board of Governors of the Federal Reserve System may be incidental to its international or foreign business: *Provided, however,* That, except with the approval of the Board

of Governors of the Federal Reserve System, no corporation organized hereunder shall invest in any one corporation an amount in excess of 10 per centum of its own capital and surplus, except in a corporation engaged in the business of banking, when 15 per centum of its capital and surplus may be so invested: *Provided further,* That no corporation organized hereunder shall purchase, own, or hold stock or certificates of ownership in any other corporation organized hereunder or under the laws of any State which is in substantial competition therewith, or which holds stock or certificates of ownership in corporations which are in substantial competition with the purchasing corporation.

[U. S. C., title 12, sec. 615.]

#### **Purchase of stock to prevent loss on debt previously contracted**

Nothing contained herein shall prevent corporations organized hereunder from purchasing and holding stock in any corporation where such purchase shall be necessary to prevent a loss upon a debt previously contracted in good faith; and stock so purchased or acquired in corporations organized under this section shall within six months from such purchase be sold or disposed of at public or private sale unless the time to so dispose of same is extended by the Board of Governors of the Federal Reserve System.

[U. S. C., title 12, sec. 615.]

#### **Restrictions on business in United States**

No corporation organized under this section shall carry on any part of its business in the United States except such as, in the judgment of the Board of Governors of the Federal Reserve System, shall be incidental to its international or foreign business: *And provided further,* That except such as is incidental and preliminary to its organization no such corporation shall exercise any of the powers conferred by this section until it has been duly authorized by the Board of Governors of the Federal Reserve System to commence business as a corporation organized under the provisions of this section.

[U. S. C., title 12, sec. 616.]

**Corporation trading in commodities or attempting to control prices**

No corporation organized under this section shall engage in commerce or trade in commodities except as specifically provided in this section, nor shall it either directly or indirectly control or fix or attempt to control or fix the price of any such commodities. The charter of any corporation violating this provision shall be subject to forfeiture in the manner hereinafter provided in this section. It shall be unlawful for any director, officer, agent, or employee of any such corporation to use or to conspire to use the credit; the funds, or the power of the corporation to fix or control the price of any such commodities, and any such person violating this provision shall be liable to a fine of not less than \$1,000 and not exceeding \$5,000 or imprisonment not less than one year and not exceeding five years, or both, in the discretion of the court.

[U. S. C., title 12, sec. 617.]

**Capital stock**

No corporation shall be organized under the provisions of this section with a capital stock of less than \$2,000,000 one-quarter of which must be paid in before the corporation may be authorized to begin business, and the remainder of the capital stock of such corporation shall be paid in installments of at least 10 per centum on the whole amount to which the corporation shall be limited as frequently as one installment at the end of each succeeding two months from the time of the commencement of its business operations until the whole of the capital stock shall be paid in: *Provided, however,* That whenever \$2,000,000 of the capital stock of any corporation is paid in the remainder of the corporation's capital stock or any unpaid part of such remainder may, with the consent of the Board of Governors of the Federal Reserve System and subject to such regulations and conditions as it may prescribe, be paid in upon call from the board of directors; such unpaid subscriptions, however, to be included in the maximum of 10 per centum of the national bank's capital and surplus which a national bank is permitted under the provisions of this Act to hold in stock of corporations engaged in business of the kind described in this section

and in section 25 of the Federal Reserve Act as amended. The capital stock of any such corporation may be increased at any time, with the approval of the Board of Governors of the Federal Reserve System, by a vote of two-thirds of its shareholders or by unanimous consent in writing of the shareholders without a meeting and without a formal vote, but any such increase of capital shall be fully paid in within ninety days after such approval; and may be reduced in like manner, provided that in no event shall it be less than \$2,000,000. No corporation, except as herein provided, shall during the time it shall continue its operations, withdraw or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital. Any national banking association may invest in the stock of any corporation organized under the provisions of this section, but the aggregate amount of stock held in all corporations engaged in business of the kind described in this section and in section 25 of the Federal Reserve Act as amended shall not exceed 10 per centum of the subscribing bank's capital and surplus.

[U. S. C., title 12, sec. 618.]

**Citizenship of stockholders**

"Except as otherwise provided in this section, a majority of the shares of the capital stock of any such corporation shall at all times be held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies, the controlling interest in which is owned by citizens of the United States. Notwithstanding any other provisions of this section, one or more foreign banks, institutions organized under the laws of foreign countries which own or control foreign banks, or banks organized under the laws of the United States, the States of the United States, or the District of Columbia, the controlling interests in which are owned by any such foreign banks or institutions, may, with the prior approval of the Board of Governors of the Federal Reserve System and upon such terms and conditions and subject to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe, own and hold 50 per centum or more

of the shares of the capital stock of any corporation organized under this section, and any such corporation shall be subject to the same provisions of law as any other corporation organized under this section, and the terms 'controls' and 'controlling interest' shall be construed consistently with the definition of 'control' in section 2 of the Bank Holding Company Act of 1956. For the purposes of the preceding sentence of this paragraph the term 'foreign bank' shall have the meaning assigned to it in the International Banking Act of 1978."

[U. S. C., title 12, sec. 619.]

**Members of Board of Governors of the Federal Reserve System as directors, officers, or stockholders**

No member of the Board of Governors of the Federal Reserve System shall be an officer or director of any corporation organized under the provisions of this section, or of any corporation engaged in similar business organized under the laws of any State, nor hold stock in any such corporation, and before entering upon his duties as a member of the Board of Governors of the Federal Reserve System he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement.

[U. S. C., title 12, sec. 620.]

**Shareholders' liability; corporation not to become member of Federal Reserve bank**

Shareholders in any corporation organized under the provision of this section shall be liable for the amount of their unpaid stock subscriptions. No such corporation shall become a member of any Federal Reserve bank.

[U. S. C., title 12, sec. 621.]

**Forfeiture of charter for violation of law**

Should any corporation organized hereunder violate or fail to comply with any of the provisions of this section, all of its rights, privileges, and franchises derived herefrom may thereby be forfeited. Before any such corporation should be declared dissolved, or its rights, privileges, and franchises forfeited, any noncompliance with, or

violation of such laws shall, however, be determined and adjudged by a court of the United States of competent jurisdiction, in a suit brought for that purpose in the district or territory in which the home office of such corporation is located, which suit shall be brought by the United States at the instance of the Board of Governors of the Federal Reserve System or the Attorney General. Upon adjudication of such noncompliance or violation, each director and officer who participated in, or assented to, the illegal act or acts, shall be liable in his personal or individual capacity for all damages which the said corporation shall have sustained in consequence thereof. No dissolution shall take away or impair any remedy against the corporation, its stockholders, or officers for any liability or penalty previously incurred.

[U. S. C., title 12, sec. 622.]

**Voluntary liquidation**

Any such corporation may go into voluntary liquidation and be closed by a vote of its shareholders owning two-thirds of its stock.

[U. S. C., title 12, sec. 623.]

**Insolvency; appointment of receiver**

Whenever the Board of Governors of the Federal Reserve System shall become satisfied of the insolvency of any such corporation, it may appoint a receiver who shall take possession of all the property and assets of the corporation and exercise the same rights, privileges, powers, and authority with respect thereto as are now exercised by receivers of national banks appointed by the Comptroller of the Currency of the United States: *Provided, however,* That the assets of the corporation subject to the laws of other countries or jurisdictions shall be dealt with in accordance with the terms of such laws.

[U. S. C., title 12, sec. 624.]

**Stockholders' meetings; records; reports; examinations**

Every corporation organized under the provisions of this section shall hold a meeting of its stockholders annually upon a date fixed in its by-



laws, such meeting to be held at its home office in the United States. Every such corporation shall keep at its home office books containing the names of all stockholders thereof, and the names and addresses of the members of its board of directors, together with copies of all reports made by it to the Board of Governors of the Federal Reserve System. Every such corporation shall make reports to the Board of Governors of the Federal Reserve System at such times and in such form as it may require; and shall be subject to examination once a year and at such other times as may be deemed necessary by the Board of Governors of the Federal Reserve System by examiners appointed by the Board of Governors of the Federal Reserve System, the cost of such examinations, including the compensation of the examiners, to be fixed by the Board of Governors of the Federal Reserve System and to be paid by the corporation examined.

[U. S. C., title 12, sec. 625.]

#### **Dividends and surplus fund**

The directors of any corporation organized under the provisions of this section may, semiannually, declare a dividend of so much of the net profits of the corporation as they shall judge expedient; but each corporation shall, before the declaration of a dividend, carry one-tenth of its net profits of the preceding half year to its surplus fund until the same shall amount to 20 per centum of its capital stock.

[U. S. C., title 12, sec. 626.]

#### **Taxation**

Any corporation organized under the provisions of this section shall be subject to tax by the State within which its home office is located in the same manner and to the same extent as other corporations organized under the laws of that State which are transacting a similar character of business. The shares of stock in such corporation shall also be subject to tax as the personal property of the owners or holders thereof in the same manner and to the same extent as the shares of stock in similar State corporations.

[U. S. C., title 12, sec. 627.]

#### **Extension of corporate existence**

Any corporation organized under the provisions of this section may at any time within the two years next previous to the date of the expiration of its corporate existence, by a vote of the shareholders owning two-thirds of its stock, apply to the Board of Governors of the Federal Reserve System for its approval to extend the period of its corporate existence for a term of not more than twenty years, and upon certified approval of the Board of Governors of the Federal Reserve System such corporation shall have its corporate existence for such extended period unless sooner dissolved by the act of the shareholders owning two-thirds of its stock, or by an Act of Congress or unless its franchise becomes forfeited by some violation of law.

[U. S. C., title 12, sec. 628.]

#### **Conversion of State corporation into Federal corporation**

Any bank or banking institution, principally engaged in foreign business, incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a corporation under the provisions of this section may, by the vote of the shareholders owning not less than two-thirds of the capital stock of such bank or banking association, with the approval of the Board of Governors of the Federal Reserve System, be converted into a Federal corporation of the kind authorized by this section with any name approved by the Board of Governors of the Federal Reserve System: *Provided, however,* That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of at least two-thirds of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a Federal corporation. A majority of the directors, after executing the articles of association and the organization certificate shall have power to execute all other papers and to do whatever may be required to make its organization perfect

and complete as a Federal corporation. The shares of any such corporation may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the corporation until others are elected or appointed in accordance with the provisions of this section. When the Board of Governors of the Federal Reserve System has given to such corporation a certificate that the provisions of this section have been complied with, such corporation and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by this section for corporations originally organized hereunder.

[U. S. C., title 12, sec. 629.]

#### **Criminal offenses of directors, officers, and employees**

Every officer, director, clerk, employee, or agent of any corporation organized under this section who embezzles, abstracts, or willfully misapplies any of the moneys, funds, credits, securities, evidences of indebtedness or assets of any character of such corporation; or who, without authority from the directors, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, debenture, draft, bill of exchange, mortgage, judgment, or decree; or who makes any false entry in any book, report, or statement of such corporation with intent, in either case, to injure or defraud such corporation or any other company, body politic or corporate, or any individual person, or to deceive any officer of such corporation, the Board of Governors of the Federal Reserve System, or any agent or examiner appointed to examine the affairs of any such corporation; and every receiver of any such corporation and every clerk or employee of such

receiver who shall embezzle, abstract, or willfully misapply or wrongfully convert to his own use any moneys, funds, credits, or assets of any character which may come into his possession or under his control in the execution of his trust or the performance of the duties of his employment; and every such receiver or clerk or employee of such receiver who shall, with intent to injure or defraud any person, body politic or corporate, or to deceive or mislead the Board of Governors of the Federal Reserve System, or any agent or examiner appointed to examine the affairs of such receiver, shall make any false entry in any book, report, or record of any matter connected with the duties of such receiver; and every person who with like intent aids or abets any officer, director, clerk, employee, or agent of any corporation organized under this section or receiver or clerk or employee of such receiver as aforesaid in any violation of this section, shall upon conviction thereof be imprisoned for not less than two years nor more than ten years, and may also be fined not more than \$5,000, in the discretion of the court.

[U. S. C., title 12, sec. 630.]

#### **Representation that United States is liable for obligations**

Whoever being connected in any capacity with any corporation organized under this section represents in any way that the United States is liable for the payment of any bond or other obligation, or the interest thereon, issued or incurred by any corporation organized hereunder, or that the United States incurs any liability in respect of any act or omission of the corporation, shall be punished by a fine of not more than \$10,000 and by imprisonment for not more than five years.

[U. S. C., title 12, sec. 631.]

**BANK HOLDING COMPANY ACT OF 1956**

**Act of May 9, 1956 (70 Stat. 133)**

SEC. 4. \* \* \*

(c) The prohibitions in this section shall not apply to any bank holding company which is (i) a labor, agricultural, or horticultural organization and which is exempt from taxation under section 501 of the Internal Revenue Code of 1954, or (ii) a company covered in 1970 more than 85 per centum of the voting stock of which was collectively owned on June 30, 1968, and continuously thereafter, directly or indirectly, by or for members of the same family, or their spouses, who are lineal descendants of common ancestors; and such prohibitions shall not, with respect to any other bank holding company, apply to—

\* \* \*

(13) shares of, or activities conducted by, any company which does no business in the United States except as an incident to its international or foreign business, if the Board by regulation or order determines that, under the circumstances and subject to the conditions set forth in the regulation or order, the exemption would not be substantially at variance with the purposes of this Act and would be in the public interest.

**INTERNATIONAL BANKING ACT OF 1978**

**Act of September 17, 1978 (92 Stat. 607)**

SEC. 3.(a) It is the purpose of this section to eliminate or modify provisions in section 25(a) of the Federal Reserve Act that (1) discriminate against foreign-owned banking institutions, (2) disadvantage or unnecessarily restrict or limit corporations organized under section 25(a) of the

Federal Reserve Act in competing with foreign-owned banking institutions in the United States or abroad or (3) impede the attainment of the Congressional purposes set forth in section 25(a) of the Federal Reserve Act as amended by subsection (b) of this section. In furtherance of such purpose, the Congress believes that the Board should review and revise its rules, regulations, and interpretations issued pursuant to section 25(a) of the Federal Reserve Act to eliminate or modify any restrictions, conditions, or limitations not required by section 25(a) of the Federal Reserve Act, as amended, that (1) discriminate against foreign-owned banking institutions, (2) disadvantage or unnecessarily restrict or limit corporations organized under section 25(a) of the Federal Reserve Act in competing with foreign-owned banking institutions in the United States or abroad, or (3) impede the attainment of the Congressional purposes set forth in section 25(a) of the Federal Reserve Act as amended by subsection (b) of this section. Rules and regulations pursuant to this subsection and section 25(a) of the Federal Reserve Act shall be issued not later than 150 days after the date of enactment of this section and shall be issued in final form and become effective not later than 120 days after they are first issued.

\* \* \*

(g) The Board shall report to the Congress not later than 270 days after the date of enactment of this Act its recommendations with respect to permitting corporations organized or operating under section 25 or 25(a) of the Federal Reserve Act, to become members of Federal Reserve Banks.

(h) As part of its annual report pursuant to section 10 of the Federal Reserve Act, the Board shall include its assessment of the effects of the amendments made by this Act on the capitalization and activities of corporations organized or operating under section 25 or 25(a) of the Federal Reserve Act, and on commercial banks and the banking system.