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**FEDERAL RESERVE BANK OF DALLAS**

Station K, Dallas, Texas 75222

Circular No. 84-16  
January 30, 1984

**TO:** All member banks and others concerned in the Eleventh Federal Reserve District

**ATTENTION:** Chief Executive Officer

**SUBJECT:** Amendments to Regulation K -- International Banking Operations

**SUMMARY:** The Board of Governors of the Federal Reserve System has announced amendments to Regulation K, effective immediately, to include travel agency services on its list of permissible activities in connection with the transaction of banking operations abroad. These services may be offered only through a foreign company located abroad and the company may not engage in offering travel services in the United States.

The Board also approved amendments to expedite procedures for investment in an export trading company and, in addition, removed certain export trading company notifications.

**ATTACHMENTS:** Board's press release and material as submitted for publication in the Federal Register

**MORE INFORMATION:** Legal Department, Extension 6171

**ADDITIONAL COPIES:** Public Affairs Department, Extension 6289

# FEDERAL RESERVE press release



For immediate release

December 21, 1983

The Federal Reserve Board has approved revisions of its rules to add to the list of activities permissible for United States banking organizations the operation of a travel agency abroad and to liberalize notification procedures respecting proposed banking organization investments in export trading companies.

The Board revised its Regulation K--International Banking Operations-- to permit bank holding companies and Edge and Agreement Corporations to invest in travel agencies abroad. This follows recent approval by the Board of individual applications by such organizations to engage indirectly in travel agency activities abroad.

The Board also approved amendments to its Rules Regarding Delegation of Authority to expedite procedures for investment in an export trading company by delegating to the Reserve Banks authority to process certain notifications filed by bank holding companies to invest in the shares of an export trading company.

At the same time, the Board amended Regulation K to remove the requirement for subsequent notification to the Board by an export trading company that it intends to take title to goods against firm orders.

These latter actions were based on experience to date with notification procedures that the Board adopted in June as part of its regulations implementing the Bank Export Services Act. At that time, the Board said it would reconsider the notification procedures in the regulations after a reasonable amount of experience had been gained.

These actions are effective immediately.

The Board's notices in these matters can be obtained from the Reserve Banks.

FEDERAL RESERVE SYSTEM

REGULATION K

[12 C.F.R. Part 211]

[Docket No. R-0494]

INTERNATIONAL BANKING OPERATIONS

International Operations of U. S. Banking Organizations

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board has amended 12 C.F.R. Part 211, Regulation K, to include travel agency services on the list of activities that the Board has found to be usual in connection with the transaction of banking or other financial operations abroad. Permitting U.S. banking organizations to offer these services abroad should enhance their ability to compete in foreign markets. These services may be offered only through a foreign company located abroad and the company may not engage in offering travel services in the United States.

EFFECTIVE DATE: December 20, 1983.

FOR FURTHER INFORMATION CONTACT: Nancy P. Jacklin (202/452-3428); Kathleen O'Day (202/452-3786) or Renee DeVigne (202/452-3786), Legal Division; or James S. Keller, Division of Banking Supervision and Regulation (202/452-2523), Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

SUPPLEMENTARY INFORMATION: Section 25(a) of the Federal Reserve Act (the "Edge Act") (12 U.S.C. 611 et seq.) provides that, with the consent of the Board, an Edge Corporation may invest in any company that does not engage in buying and selling goods and engages in the United States only in business incidental to its foreign business (12 U.S.C. 615). Section 4(c)(13) of the Bank Holding Company Act (12 U.S.C. 1843(c)(13)) permits a bank holding company to invest in a company that does no business in the United States except as an incident to its foreign business if the Board determines that such investment would not be substantially at variance with the purposes of the BHC Act and would be in the public interest.

The Board has implemented these provisions in section 211.5 of Regulation K (12 C.F.R. 211.5), which provides that activities of investors should generally be confined to those of a banking or financial nature and those that are necessary to carry on such activities. Regulation K also provides that an Edge or Agreement Corporation or a bank holding company may invest in a foreign company that engages in activities that the Board determines are usual in connection with the transaction of banking or other financial operations outside the United States. Section 211.5(d) of Regulation K lists those activities that the Board has determined meet this standard and are thus permissible activities for bank holding companies and Edge and Agreement Corporation investors outside the United States. An investor may also apply for specific consent to invest in a company that engages in activities other than those listed in section 211.5(d), provided that the activities meet the above test and are otherwise consistent with law.

The Board has recently considered an application by an Edge Corporation to invest in a foreign company that provides travel agency services in conjunction with other financial services provided to customers, such as credit card activities. In approving this application, the Board considered the context in which the travel agency services were to be offered and their relationship to other financial services and the fact that banking institutions in the foreign country were generally permitted to, and do, offer travel services as part of their operations. Since acting on that application, the Board has received several notices and inquiries concerning the permissibility of offering travel agency services in other countries.

The materials presented to the Board indicate that the provision of travel agency services in conjunction with certain financial services is a usual practice in many foreign countries, and can serve to help the U. S. investor to maintain its competitive position in those foreign markets. In this regard, in amending the Edge Act in 1978, Congress declared

. . . 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.

12 U.S.C. 611a.

Permitting U.S. banking organizations to engage in travel agency activities would be in furtherance of this purpose by enhancing the competitive abilities of U.S.-owned organizations.

In light of this background, the Board has determined to add the provision of travel agency services to the list of permissible activities in Regulation K provided that such travel agency is operated in connection with financial services provided by the affiliated or unaffiliated persons. This action relates solely to travel services offered by U. S. banking organizations outside the United States and does not permit a bank holding company or Edge Corporation to engage in travel agency activities in the United States.

Inasmuch as this action does not affect competition in the United States and enhances the competitive position of U. S. banking organizations abroad by relieving a regulatory restriction, the Board has determined for good cause that the notice and public participation provisions of 5 U.S.C. 553 with respect to this action are unnecessary, and that, in the public interest, the rule should be effective immediately.

Pursuant to section 605(b) of the Regulatory Flexibility Act (Pub. L. No. 96-354, 5 U.S.C. section 601 et seq.), the Board certifies that the proposed amendment, if adopted, will not have a significant economic impact on a substantial number of small entities. The proposed amendment would ease the application of the existing regulations and does not have any particular effect on small entities.

List of subjects in 12 C.F.R. Part 211

Banks, banking; Federal Reserve System; Foreign banking; Investments; Reporting requirements.

Pursuant to its authority under sections 25 and 25(a) of the Federal Reserve Act (12 U.S.C. 601-604a and 611 et seq.) and section 4(c)(13) of the Bank Holding Company Act (12 U.S.C. 1843(c)(13)), the Board is amending section 211.5(d)(14) Subpart A of 12 C.F.R. Part 211 by redesignating section 211.5(d)(14) as section 211.5(d)(15) and adding a new section 211.5(d)(14) to read as follows:

§ 211.5. Investments in other organizations

\* \* \* \* \*

(d) \* \* \*

(14) the operation of a travel agency provided that the travel agency is operated in connection with financial services offered abroad by the investor or others;

\* \* \*

By order of the Board of Governors, December 20, 1983.

(signed) William W. Wiles

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William W. Wiles  
Secretary of the Board

FEDERAL RESERVE SYSTEM

Rules Regarding Delegation of Authority

[12 C.F.R. Part 265]

(Docket No. R-0496)

Rules Regarding Delegation of Authority; Delegation  
of Authority to Reserve Banks to Act on Notices  
of Proposed Investments in Export Trading Companies

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: The Board is amending 12 C.F.R. Part 265, its Rules Regarding Delegation of Authority, to delegate to the Federal Reserve Banks authority to act on notifications by bank holding companies to invest in export trading companies. It is anticipated that this delegation of authority would aid in the expeditious processing of export trading company notifications.

EFFECTIVE DATE: December 20, 1983.

FOR FURTHER INFORMATION CONTACT: James Keller, Manager, International Banking Applications, Division of Banking Supervision and Regulation (202/452-2523) or Kathleen O'Day, Senior Counsel, Legal Division (202/452-3786), Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

SUPPLEMENTARY INFORMATION: In June 1983, the Board adopted regulations implementing the Bank Export Services Act (Pub. L. 97-290) authorizing bank holding companies to invest in export trading companies and establishing procedures governing such investments. Under the regulations (12 C.F.R. 211.31 et seq.), a bank holding company or other eligible investor must provide the Board with 60 days' prior notice of its intention to invest in an export trading company. The investment generally may be made at the end of that time period, or sooner if the Board notifies the investor of its intention not to disapprove the investment. At the time of adoption of the regulation the Board stated that it would consider the adoption of expedited procedures ". . . after some reasonable experience has been gained in the export trading company notification process, no later than one year from the effective date of this regulation." 48 Federal Register 26,445 (1983).

The Board has processed 15 export trading company notifications to date and on the basis of this experience believes that standards can be established under which it is appropriate for the Reserve Banks to act on these notifications.<sup>1/</sup> The amendment to the Rules Regarding Delegation of Authority would permit a Reserve Bank to issue a notice of intention not to disapprove an initial or subsequent notice of investment in an export trading company if all the following criteria are met:

- (1) the proposed export trading company will be a wholly-owned subsidiary or a joint venture with an individual or individuals involved in the operation of the export trading company;
- (2) the bank holding company investor and its lead bank are in acceptable financial condition;
- (3) the export trading company proposes to take title to goods only against firm orders, except that it may carry an inventory of goods whose value is no more than \$2 million;
- (4) the export trading company does not propose to engage in product research or design, product modification or activities not specifically listed in 12 U.S.C. 1843(c)(14)(F)(ii);
- (5) the assets to capital ratio of the export trading company will not exceed 10:1; and
- (6) the notice presents no significant policy issues on which the Board has not previously expressed its view.

Failure to meet these criteria does not indicate that a proposed investment would be disapproved. It requires only that the notification must be acted on by the Board rather than by a Reserve Bank.

The Board believes that this delegation of authority will be useful in the expeditious processing of export trading company notifications and will review the standards for delegation from time to time.

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<sup>1/</sup> This delegation also requires a technical amendment to 12 C.F.R. 265.2(a)(2).



Pursuant to Section 605(b) of the Regulatory Flexibility Act (Pub. L. 96-354; 5 U.S.C. 601 et seq.), the Board of Governors of the Federal Reserve System certifies that the amendments adopted will not have a significant economic impact on a substantial number of small entities that would be subject to the regulation.

The provisions of 5 U.S.C. § 553 relating to notice, public participation and deferred effective date are not followed in connection with the adoption of these amendments because the changes involved are procedural in nature and do not constitute substantive rules subject to the requirement of that section.

List of Subjects in 12 C.F.R. Part 265

Authority, delegations (Government agencies): Banks, banking: Federal Reserve System.

Pursuant to its authority under sections 4(c)(14) and 5(b) of the Bank Holding Company Act of 1956, as amended (12 U.S.C. 1843(c)(14) and 1844(b)), the Board of Governors amends its Rules Regarding Delegation of Authority (12 C.F.R. Part 265) by adding a new section, 265.2(f)(58), and by revising section 265.2(a)(2) to read as follows:

§ 265.2 - Specific functions delegated to Board Employees and to Federal Reserve Banks.

(a) \* \* \*

(1) \* \* \*

(2) Under the provisions of sections 18(c) and 18(c)(4) of the Federal Deposit Insurance Act (12 U.S.C. 1828(c) and 1828(c)(4)), sections 3(a), 4(c)(8) and 4(c)(14) of the Bank Holding Company Act (12 U.S.C. 1842(a), 1843(c)(8) and (14)), the Change in Bank Control Act (12 U.S.C. 1817(j)) and section 25 and 25(a) of the Federal Reserve Act (12 U.S.C. 601-604a and 611 et seq.), and sections 225.3(b) and (c), and 225.4(a) and (b) and 225.7 of Regulation Y (12 C.F.R. 225.3(b) and (c), 225.4(a) and (b), and 225.7), sections 211.3(a), 211.4(c), 211.5(c) and 211.34 of Regulation K (12 C.F.R. 211.3(a), 211.4(c), 211.5(c) and 211.34), to

furnish reports on competitive factors involved in a bank merger to the Comptroller of the Currency and the Federal Deposit Insurance Corporation and to take actions the Reserve Bank could take except for the fact that the Reserve Bank may not act because a director or senior officer of any holding company, bank, or company involved in the transaction is a director of a Federal Reserve Bank or branch.

\* \* \* \* \*

(f) \* \* \*

(58) Under section 4(c)(14) of the Bank Holding Company Act and Subpart C of the Board's Regulation K, to issue a notice of intention not to disapprove a proposed investment in an export trading company if all the following criteria are met:

- (i) the proposed export trading company will be a wholly-owned subsidiary of a single investor, or ownership will be shared with an individual or individuals involved in the operation of the export trading company;
- (ii) a bank holding company investor and its lead bank meet the minimum capital adequacy guidelines of the Board and the Comptroller of the Currency or have enacted capital enhancement plans that have been determined by the appropriate supervisory authority to be acceptable;
- (iii) the proposed export trading company will take title to goods only against firm orders, except that the company may maintain inventory of goods worth up to \$2 million;
- (iv) the proposed activities of the export trading company do not include product research or design, product modification, or activities not specifically covered by the list of services contained in section 4(c)(14)(F)(ii) of the BHCA Act;
- (v) the proposed leveraging ratio of the ETC (assets: capital) does not exceed 10:1, and

- (vi) no other significant policy issue is raised on which the Board has not previously expressed its view.

By order of the Board of Governors of the Federal Reserve System, December 20, 1983.

(signed) James McAfee

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James McAfee  
Associate Secretary of the Board

FEDERAL RESERVE SYSTEM

REGULATION K

[12 C.F.R. Part 211]

(Docket No. R-0495)

INTERNATIONAL BANKING OPERATIONS

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is amending 12 C.F.R. Part 211, Subpart C of Regulation K, its regulations governing investments by bank holding companies in export trading companies to clarify when a bank holding company must provide a subsequent notice of investment to the Board. The Board also proposes to make a technical amendment to these regulations regarding the time within which an investment must be made by the investor in the export trading company.

EFFECTIVE DATE: December 20, 1983.

FOR FURTHER INFORMATION CONTACT: James Keller, Manager, International Banking Applications, Division of Banking Supervision and Regulation (202/452-2523) or Kathleen O'Day, Senior Counsel, Legal Division (202/452-3786), Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

SUPPLEMENTARY INFORMATION: The Board adopted final regulations in June 1983 to implement the Bank Export Services Act, which authorizes investments by banking organizations in export trading companies. The regulations permit an eligible investor (i.e., a bank holding company, Edge or Agreement Corporation, or bankers' bank) to invest in an export trading company 60 days after providing notice to the Board of the proposed investment. Subsequent notice is required in specified circumstances.

Section 211.34(a)(2) requires an investor to give subsequent notice to the Board if the export trading company intends to take title to goods and did not include a description of this activity in its original notice. The Board has reviewed this requirement in light of its experience to

date in considering 15 notices of investment in export trading companies by bank holding companies and has determined to modify this requirement. Risk associated with taking title to goods is reduced substantially if the export trading company has a firm order for the sale of those goods to a third party. Therefore, the Board is amending section 211.34(a)(2) to modify the requirement that an investor that did not include taking title to goods in its original notice must submit subsequent notice before engaging in this activity. Subsequent notice no longer will be required if the export trading company will take title only against firm orders.

The Board is also making a technical change to the regulations, adding the requirement that the proposed investment must be made in the export trading company within one year of receiving notice of the Board's decision not to disapprove the investment, unless the time is extended for good cause by the Board or the appropriate Federal Reserve Bank. This requirement has been included in each of the 15 letters notifying investors of the Board's intention not to disapprove, and the Board believes it appropriate to add it to the regulation at this time.

Pursuant to Section 605(b) of the Regulatory Flexibility Act (Pub. L. 96-354; 5 U.S.C. 601 et seq.), the Board of Governors of the Federal Reserve System certifies that the amendments adopted will not have a significant economic impact on a substantial number of small entities that would be subject to the regulation.

The provisions of 5 U.S.C. § 553 relating to notice, public participation and deferred effective date are not followed in connection with the adoption of these amendments because the changes involved are either procedural in nature or relieve a regulatory restriction and do not constitute substantive rules subject to the requirement of that section.

List of Subjects in 12 C.F.R. Part 211

Banks, banking; Federal Reserve System; Foreign banking; Investments; Reporting requirements.

Pursuant to its authority under sections 4(c)(14) and 5(b) of the Bank Holding Company Act, the Board of Governors is amending Subpart C of Regulation K (12 C.F.R. 211.31 et seq.) by revising section 211.34(a)(2) to read as follows, and by adding a new paragraph 211.34(c):

§ 211.34 - Procedures for Filing and Processing Notices

(a) \* \* \*

(1) \* \* \*

(2) Subsequent notice. An eligible investor shall give the Board 60 days' prior written notice of changes in the activities of an export trading company that is a subsidiary of the investor if the export trading company expands its activities beyond those described in the initial notice to include: (i) taking title to goods where the export trading company does not have a firm order for the sale of those goods; (ii) product research and design; (iii) product modification, or (iv) activities not specifically covered by the list of activities contained in section 4(c)(14)(F)(ii) of the BHC Act. Such an expansion of activities shall be regarded as a proposed investment under this subpart.

(b) \* \* \*

(c) Time period for investment. An investment in an export trading company that has not been disapproved shall be made within one year from the date of the notice not to disapprove, unless the time period is extended by the Board or by the appropriate Federal Reserve Bank.

By order of the Board of Governors, December 20, 1983.

(signed) James McAfee

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James McAfee  
Associate Secretary of the Board