



**FEDERAL RESERVE BANK  
OF DALLAS**

**WILLIAM H. WALLACE**  
FIRST VICE PRESIDENT  
AND CHIEF OPERATING OFFICER

March 3, 1988

DALLAS, TEXAS 75222

Circular 88-18

**TO:** The Chief Executive Officer of all  
member banks and others concerned in  
the Eleventh Federal Reserve District

**SUBJECT**

**Final amendment to Regulation K -- International Banking Operations**

**DETAILS**

The Board of Governors of the Federal Reserve System has adopted an amendment to its Regulation K to provide bank holding companies with greater flexibility in making debt-for-equity investments in heavily indebted countries. The amendment is effective February 24, 1988.

In August, 1987 the Board revised Regulation K to permit banking organizations, through debt-for-equity swaps, to own up to 100 percent of foreign nonfinancial companies acquired from the government of a heavily indebted developing country. The Board action was limited to investments in public sector companies that were being privatized by the government of the foreign country. At that time, the Board requested public comment on revisions to Regulation K. The amendment is a result of those comments.

The new amendment is a follow-up step to the August revision and permits U.S. banking organizations to make investments in up to 40 percent of the shares of any private sector company in heavily indebted developing countries. Banking organizations that invest in a private sector company under the regulation are also permitted to provide financing in amounts up to 50 percent of the total loans and extensions of credit to the affiliated company. The amendment also substantially lengthens the permissible holding period for investments made through debt-for-equity swaps, and investment procedures for such investments are liberalized. These measures will add to the menu of options available to banking organizations for managing exposure to heavily indebted developing countries.

**MORE INFORMATION**

Copies of the final rule and the Board's press release are available from the Public Affairs Department by calling (214) 651-6289. The final rule also will be distributed in slip-sheet form at a later date for inclusion in your Regulations Binder. For more information on Regulation K, please contact Dean A. Pankonien at (214) 651-6228.

Sincerely yours,

A handwritten signature in cursive script, reading "William H. Waller". The signature is written in black ink and is positioned to the right of the typed name "William H. Waller".