



FEDERAL RESERVE BANK
OF DALLAS

WILLIAM H. WALLACE
FIRST VICE PRESIDENT
AND CHIEF OPERATING OFFICER

DALLAS, TEXAS 75222

May 16, 1988

Circular 88-33

TO: The Chief Executive Officer of all
member banks, bank holding companies
and others concerned in the
Eleventh Federal Reserve District

SUBJECT

**Slip sheet with amendments to Regulation K --
International Banking Operations**

DETAILS

The Board of Governors of the Federal Reserve System has published an amendment in slip-sheet form to Regulation K, effective April 1988. The new slip sheet should be inserted in Volume 2 of your Regulations Binders.

ATTACHMENTS

Attached is slip sheet to Regulation K.

MORE INFORMATION

For more information, please contact Dean A. Pankonien at (214) 651-6228.

Sincerely yours,

William H. Wallace

For additional copies of any circular please contact the Public Affairs Department at (214) 651-6289. Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank (800) 442-7140 (intrastate) and (800) 527-9200 (interstate).

Amendment to Regulation K International Banking Operations April 1988*

1. *Effective July 8, 1986, the first sentence of section 211.5(c)(2) is amended by deleting the clause "if the total amount to be invested does not exceed 10 percent of the investor's capital and surplus".*

2. *Effective February 24, 1988, section 211.5(f) (which was added effective August 19, 1987) is amended to read as follows:*

(f) *Investments made through debt-for-equity conversions.*

(1) *Definitions.* For purposes of this paragraph:

(i) "eligible country" means a country that, since 1980, has restructured its sovereign debt held by foreign creditors, and any other country the Board deems to be eligible;

(ii) "equity" includes common stockholder's equity and minority interests in consolidated subsidiaries, less goodwill;

(iii) "investment" has the meaning set forth in section 211.2(i) of this regulation and, for purposes of the investment procedures of this paragraph only, shall include loans or other extensions of credit by the bank holding company or its affiliates to a company acquired pursuant to this paragraph;

(iv) "loans and extensions of credit" means all direct and indirect advances of funds to a person made on the basis of any obligation of that person to repay the funds.

(2) *Permissible investments.* In addition to investments that may be made under other provisions of this section, a bank holding company may make the following investments through the conversion

of sovereign debt obligations of an eligible country, either through direct exchange of the debt obligations for the investment or by a payment for the debt in local currency, the proceeds of which are used to purchase the investment.

(i) *Public-sector companies.* A bank holding company may acquire up to and including 100 percent of the shares of (or other ownership interests in) any foreign company located in an eligible country if the shares are acquired from the government of the eligible country or from its agencies or instrumentalities.

(ii) *Private-sector companies.* A bank holding company may acquire up to and including 40 percent of the shares, including voting shares, of (or other ownership interests in) any other foreign company located in an eligible country subject to the following conditions:

(A) a bank holding company may acquire more than 25 percent of the voting shares of the foreign company only if another shareholder or control group of shareholders unaffiliated with the bank holding company holds a larger block of voting shares of the company;

(B) the bank holding company and its affiliates may not lend or otherwise extend credit to the foreign company in amounts greater than 50 percent of the total loans and extension of credit to the foreign company; and

(C) the bank holding company's representation on the board of directors or on management committees of the foreign company may be no more than proportional to its shareholding in the foreign company.

(3) *Investments by bank subsidiary of bank holding company.* Upon applica-

* A complete Regulation K, as amended effective February 24, 1988, consists of—

• the pamphlet dated October 1985 (see inside cover) and
• this slip sheet.

tion, the Board may permit an investment to be made pursuant to this paragraph through an insured bank subsidiary of the bank holding company where the bank holding company demonstrates that such ownership is necessary due to special circumstances such as the requirements of local law. In granting its consent, the Board may impose such conditions as it deems necessary or appropriate to prevent adverse effects, including prohibiting loans from the bank to the company in which the investment is made.

(4) *Divestiture.*

(i) *Time limits for divestiture.* The bank holding company shall divest the shares of or other ownership interests in any company acquired pursuant to this paragraph (unless the retention of the shares or other ownership interest is otherwise permissible at the time required for divestiture) within two years of the date on which the bank holding company is permitted to repatriate in full the investment in the foreign company, but in any event within 15 years of the date of acquisition.

(ii) *Report to Board.* The bank holding company shall report to the Board on its plans for divesting an investment made under this paragraph no later than 10 years after the date the investment is made if the investment may be held for longer than 10 years and shall report to the Board again two years prior to the final date for divestiture, in a manner to be prescribed by the Board.

(iii) *Other conditions requiring divestiture.* All investments made pursuant to this paragraph shall be subject to paragraphs (b)(3)(i)(A) and (B) of this section requiring prompt divestiture (unless the Board upon application authorizes retention) if the company invested in engages in impermissible business in the United State.

(5) *Investment procedures.*

(i) *General consent.* Subject to the other limitations of this paragraph, the Board grants its general consent for investments made under this paragraph

if the total amount invested does not exceed the greater of \$15 million or 1 percent of the equity of the investor.

(ii) All other investment shall be made in accordance with the procedures of paragraph (c) of this section requiring prior notice or specific consent.

(6) *Conditions.*

(i) *Name.* Any company acquired pursuant to this paragraph shall not bear a name similar to the name of the acquiring bank holding company or any of its affiliates.

(ii) *Confidentiality.* Neither the bank holding company nor its affiliates shall provide to any company acquired pursuant to this paragraph any confidential business information or other information concerning customers that are engaged in the same or related lines of business as the company.