

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5398]
[October 7, 1963]

FOREIGN BANKING AND FINANCING CORPORATIONS

Revision of Regulation K

*To the Member Banks of the Second Federal
Reserve District, and Others Concerned:*

Enclosed is a copy of a revision of Regulation K of the Board of Governors of the Federal Reserve System, effective September 1, 1963, governing corporations engaged in foreign banking and financing under the Federal Reserve Act.

Our Circular No. 5376, dated August 23, 1963, contained the text of a statement issued by the Board of Governors, setting forth the changes embodied in the revision. As indicated in that statement, the primary objective of the revision was to enable so-called Edge Act and agreement corporations to operate more effectively in financing international and foreign commerce.

Additional copies of the regulation will be furnished upon request.

ALFRED HAYES,
President.

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

**CORPORATIONS DOING FOREIGN BANKING OR
OTHER FOREIGN FINANCING UNDER
THE FEDERAL RESERVE ACT**



REGULATION K
(12 CFR PART 211)

As Revised Effective September 1, 1963



INQUIRIES REGARDING THIS REGULATION

Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the district in which the inquiry arises.

CONTENTS

SEC. 211.1. AUTHORITY, SCOPE, AND NATIONAL PURPOSE	1
(a) Authority and scope.....	1
(b) National purpose	1
SEC. 211.2. DEFINITION	2
(a) "Abroad", "foreign", or "foreign country".....	2
(b) "Capital and surplus".....	2
(c) "Corporation"	2
(d) A Corporation is "engaged in banking".....	2
(e) "Person"	2
(f) "Organization"	2
SEC. 211.3. ORGANIZATION AND OWNERSHIP OF SHARES.....	2
(a) Organization	2
(b) Ownership of shares.....	2
SEC. 211.4. ISSUANCE OF OBLIGATIONS.....	3
SEC. 211.5. UNDERWRITING, SALE, AND DISTRIBUTION OF SECURITIES.....	3
(a) General	3
(b) In the United States.....	3
SEC. 211.6. BRANCHES AND AGENCIES.....	3
(a) In the United States.....	3
(b) Abroad	3
(c) Suspending operations abroad during disturbed conditions.....	4
SEC. 211.7. LIMITED OPERATIONS IN THE UNITED STATES.....	4
(a) General policy	4
(b) Employment of funds.....	4
(c) Receipt of deposits.....	4
(d) Other permissible activities.....	5
SEC. 211.8. INVESTMENTS IN SHARES OF OTHER CORPORATIONS.....	6
(a) General consent	6
(b) Specific consent	6
(c) Conditions	6
(d) Reports	6
SEC. 211.9. LIMITATIONS AND RESTRICTIONS.....	7
(a) Acceptances	7
(b) Liabilities of one borrower.....	7
(c) Aggregate liabilities	8
(d) Relations with banks.....	8
(e) Endorsement or guaranty.....	8
(f) Reports	9
(g) Examinations	9
SEC. 211.10. CORPORATIONS WITH AGREEMENTS UNDER SECTION 25 OF THE ACT..	9
Appendix-Statutory Provisions	10

REGULATION K

(12 CFR PART 211)

As revised effective September 1, 1963

CORPORATIONS DOING FOREIGN BANKING OR OTHER FOREIGN FINANCING UNDER THE FEDERAL RESERVE ACT *

SECTION 211.1—AUTHORITY, SCOPE, AND NATIONAL PURPOSE

(a) **Authority and scope.**—This part is issued by the Board of Governors of the Federal Reserve System (the "Board") under authority of the Federal Reserve Act (the "Act").† It applies to corporations organized under section 25(a) of the Act (12 U.S.C. 611-631) and, to the extent specified in § 211.10, to corporations having an agreement or undertaking with the Board under section 25 † of the Act (12 U.S.C. 601-604a).

(b) **National purpose.**—(1) The Congress, in enacting section 25(a) of the Act, provided 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 and 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.

(2) In light of the public purposes involved, Corporations should be able in their activities abroad to operate, as best meets their corporate policies, through branches, agencies, and correspondents or through direct and indirect ownership in foreign-chartered companies engaged in banking or other international or foreign operations, so long as their credit and other activities are in the interest of the United States. Corporations shall confine the scope of their operations both in the United States and abroad to practices consistent with high standards of banking or financial prudence. Activities in the United States shall be restricted to operations clearly related to international or foreign business.

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

† Statute is printed in the Appendix.

SECTION 211.2—DEFINITIONS

For the purposes of this part, unless the context otherwise requires—

(a) “Abroad”, “foreign”, or “foreign country” refers to one or more foreign nations or colonies, dependencies, or possessions thereof, overseas territories, dependencies, or insular possessions of the United States, or the Commonwealth of Puerto Rico.

(b) “Capital and surplus” means paid-in and unimpaired capital and surplus.

(c) “Corporation” when spelled with a capital “C” means a corporation organized under section 25(a) of the Act.

(d) A Corporation is “engaged in banking” whenever it has aggregate demand deposits and acceptance liabilities exceeding its capital and surplus.

(e) “Person” includes an individual or an organization.

(f) “Organization” includes a corporation, government, partnership or association, or any other legal or commercial entity.

SECTION 211.3—ORGANIZATION AND OWNERSHIP OF SHARES

(a) **Organization.**—A proposed Corporation shall become a body corporate upon issuance by the Board of a preliminary permit approving its name, articles of association, and organization certificate.¹ The name shall include “international”, “foreign”, “overseas”, or some similar word, but may not resemble the name of any other organization to an extent that might mislead or deceive the public. After issuance of its preliminary permit, a Corporation may (1) elect officers and otherwise complete its organization and (2) invest in obligations of the United States Government; but none of its other powers may be exercised until the Board has issued to it a final permit to commence business. No amendment to the articles of association shall become effective until approved by the Board.

(b) **Ownership of shares.**—Shares of stock in a Corporation (which may not include no-par value shares) shall be issuable and transferable only on its books, and no issue or transfer that would cause a violation of section 25(a) of the Act shall be so effected. A Corporation shall notify the Board as soon as possible of any change in status of a share-

¹ Appropriate forms for articles of association and organization certificate (FR 151 and 152, Revised 9-1-63), filed as part of the original document, may be obtained from the Federal Reserve Bank of the district in which the home office of the Corporation is to be located.

holder which causes a violation of said section 25(a) and shall take such action with respect thereto as the Board may direct. Each class of shares shall be so named and described in the share certificates as to indicate its character and any unusual attributes, and such certificates shall conspicuously set forth the substance of (1) limitations upon the rights of ownership and transfer of shares imposed by said section 25(a) and this part and (2) rules which the Corporation shall prescribe in its by-laws to insure compliance with this paragraph.

SECTION 211.4—ISSUANCE OF OBLIGATIONS

Except in accordance with prior Board approval, no Corporation may issue or have outstanding any debentures, bonds, promissory notes (other than notes due within one year), or similar obligations.

SECTION 211.5—UNDERWRITING, SALE, AND DISTRIBUTION OF SECURITIES

(a) **General.**—Except as permissible for member banks under section 5136 of the Revised Statutes (12 U.S.C. 24), a Corporation engaged in banking may not engage in the business of underwriting, selling, or distributing securities other than obligations of the national government of a foreign country in which it has a branch or agency.²

(b) **In the United States.**—No Corporation may (1) engage in the business of selling or distributing securities in the United States (except private placements of participations in its investments or extensions of credit) or underwrite any portion thereof so sold or distributed or (2) act in the United States as trustee, registrar, or in any similar capacity, with respect to securities distributed in the United States.

SECTION 211.6—BRANCHES AND AGENCIES

(a) **In the United States.**—A Corporation may not establish any branch in the United States, but with prior Board approval may establish agencies in the United States for specific purposes, but not generally to carry on its business.

(b) **Abroad.**—With prior Board approval, a Corporation may establish branches or agencies abroad. If a Corporation has established a branch or agency in a foreign country, it may, unless otherwise advised by the Board, establish other branches or agencies in that country after thirty days' notice to the Board with respect to each such branch or agency.

² Including obligations issued by any agency or instrumentality, and supported by the full faith and credit, of such a government.

(c) **Suspending operations abroad during disturbed conditions.**—The officer in charge of a branch or agency aboard may suspend its operations during disturbed conditions which, in his judgment, make conduct of such operations impracticable; but every effort shall be made before and during such suspension to serve its depositors and customers. Full information concerning any such suspension shall be promptly reported to the home office of the Corporation, which shall immediately send a copy thereof to the Board through the Federal Reserve Bank of its district.

SECTION 211.7—LIMITED OPERATIONS IN THE UNITED STATES

(a) **General policy.**—It is the Board's general policy to permit Corporations to transact, subject to section 25(a) of the Act and this part, such limited business in the United States as is usual in financing international commerce, including deposit facilities; loan, overdraft, advance, acceptance, and other credit facilities; commercial letters of credit; foreign collections; purchase and sale of foreign exchange; remittance of funds abroad; purchase, sale, and custody of securities and acceptance for account of customers abroad; and foreign credit information.

(b) **Employment of funds.**—Funds of a Corporation not currently employed in its international or foreign business, if held or invested in the United States, shall be only in the form of (1) cash, (2) deposits with banks, (3) bankers' acceptances, or (4) obligations of, or obligations fully and unconditionally guaranteed by, the United States, any State thereof, or any department, agency, or establishment of, or corporation wholly owned by, the United States.

(c) **Receipt of deposits.**—It will ordinarily be considered incidental to or for the purpose of carrying out transactions abroad for a Corporation to receive in the United States demand and time (but not savings) deposits that are not to be used to pay expenses in the United States of an office or representative therein—

(1) from foreign governments, persons conducting business principally at their offices or establishments abroad, and individuals resident abroad and

(2) from any other person if the deposit (i) is to be transmitted abroad, (ii) is to provide collateral or payment for extensions of credit by the Corporation, (iii) represents proceeds of collections abroad which are to be used to pay for goods exported or imported or for other direct costs of export or import, or periodically transferred to the depositor's account at another financial institution, or (iv) represents proceeds of extensions of credit by the Corporation.

Such deposits shall be subject to Parts 204 (Reg. D) and 217 (Reg. Q); of this chapter, and be reported in the same manner as if the Corporation were a member bank of the Federal Reserve System; but in no event shall reserves against such deposits be less in the aggregate than 10 per cent.

(d) Other permissible activities.—It will ordinarily be considered incidental to the international or foreign business of a Corporation for it to engage in the following transactions in the United States:

(1) Finance the following types of transactions, including payments or costs (but not expenses in the United States of an office or representative therein) incident thereto: (i) contracts, projects, or activities performed abroad, (ii) the importation into or exportation from the United States of goods, (iii) the delivery through domestic transport facilities of goods so imported or their assembly or packaging for resale without essential change therein, if the Corporation financed the importation, and (iv) the domestic shipment or temporary storage (but not production) of goods being exported or accumulated for export, if the Corporation is financing their exportation;

(2) Take over or acquire subsequent participations in extensions of credit, or acquire obligations, growing out of transactions it could have financed at inception under subparagraph (1) of this paragraph;

(3) Guarantee customers' debts or otherwise agree for their benefit to make payments on the occurrence of readily ascertainable events,³ if the guarantee or agreement specifies its maximum monetary liability thereunder and is related to a type of transaction described in subparagraph (1) of this paragraph;

(4) Buy and sell spot and future foreign exchange;

(5) Receive checks, bills, drafts, acceptances, notes, bonds, coupons, and other securities for collection abroad, and collect such instruments in the United States for customers abroad;

(6) Hold securities in safekeeping for, or buy and sell securities upon the order and for the account and risk of, customers abroad;

(7) Act as paying agent for securities issued by foreign governments or other organizations organized under foreign law and not qualified under the laws of the United States or any State or the District of Columbia to do business in the United States.

³ Including, but not limited to, such types of events as nonpayment of taxes, rentals, customs duties, or costs of transport and loss or nonconformance of shipping documents.

SECTION 211.8—INVESTMENTS IN SHARES OF OTHER CORPORATIONS

(a) **General consent.**—Subject to section 25(a) of the Act⁴ and this part, the Board hereby grants its general consent for any Corporation to acquire (other than through a broker, dealer, or stock exchange firm or representative) and hold the shares of corporations organized under foreign law if such acquisition (1) is incidental to an extension of credit by the Corporation to the corporation whose shares are acquired, (2) consists of shares in a foreign bank, or (3) is otherwise likely to further the development of United States foreign commerce; but no acquisition under this paragraph may cause a Corporation to hold 25 per cent or more of the voting shares⁵ of a foreign bank and the aggregate amount invested in the shares of any other corporation under clause (3) of this paragraph may not exceed \$200,000 or its equivalent. A Corporation may request an advisory opinion of the Board as to whether a particular acquisition is covered by the preceding sentence.

(b) **Specific consent.**—Prior specific consent of the Board is required with respect to the acquisition of any shares by a Corporation in any situation not covered by § 211.8(a) or the ninth paragraph of section 25(a) of the Act.

(c) **Conditions.**—(1) Shares of stock in a corporation shall be disposed of as promptly as practicable if (i) such corporation should engage in the business of underwriting, selling, or distributing securities in the United States or (ii) the Corporation is advised by the Board that their holding is inappropriate under section 25(a) of the Act or this part.

(2) In computing the amount which may be invested in the shares of any corporation under section 25(a) of the Act or § 211.8(a), there shall be included any such investments in other corporations controlled by such corporation. Unless otherwise specified, “shares” in this section include any rights to acquire shares.

(d) **Reports.**—A Corporation shall inform the Board through the Federal Reserve Bank of its district within thirty days after the close of each quarter with respect to any acquisition or disposition of shares during that quarter, including the following information concerning any corporation whose shares it acquired for the first time (unless previously furnished): (1) Recent balance sheet and income statement,

⁴ Including the limitations therein based on capital and surplus.

⁵ Exclusive of rights to acquire shares.

(2) brief descriptions of the corporation's business (including full information concerning any such business transacted in the United States), the shares acquired, and any related credit transaction, (3) lists of directors and principal officers (with address and principal business affiliation of each) and of all shareholders (known to the issuing corporation) holding 10 per cent or more of any class of the corporation's shares (and the amount held by each), and (4) information concerning the rights and privileges of the various classes of shares outstanding.

SECTION 211.9—LIMITATIONS AND RESTRICTIONS

(a) **Acceptances.**—A Corporation shall be and remain fully secured as to (1) 50 per cent of all acceptances outstanding in excess of the amount of its capital and surplus, (2) all acceptances in excess of twice such amount, and (3) all acceptances for any one person in excess of 10 per cent of such amount, except to the extent any such excess represents the international shipment of goods and is fully covered by primary obligations to reimburse it which are also guaranteed by banks or bankers.

(b) **Liabilities of one borrower.**—Except as the Board may otherwise specify, the total liabilities to a Corporation of any person shall at no time exceed 50 per cent of the Corporation's capital and surplus, or 10 per cent thereof if it is engaged in banking. In this paragraph "liabilities" includes: any obligations for money borrowed and shares of stock; unsecured liabilities resulting from issuance by the Corporation of guarantees or similar agreements (described in § 211.7(d)(3)), the aggregate of which liabilities incurred for any person may in no event exceed 10 per cent of any Corporation's capital and surplus; in the case of a partnership or firm, liabilities of the members thereof; in the case of a corporation, liabilities incurred for its benefit by other corporations which it controls; and in the case of a foreign government, the liabilities of its departments or agencies deriving their current funds principally from its general tax revenues. The limitations of this paragraph shall not apply to (1) bills or drafts drawn in good faith against actually existing values, (2) obligations arising out of the discount of commercial or business paper actually owned by the negotiator, (3) any acceptance made by a Corporation which has not matured and is not held by it, or (4) obligations to the extent supported by the full faith and credit of the following:

(i) The United States or any department, agency, or establishment thereof or corporation wholly owned thereby, the International

Bank for Reconstruction and Development, the International Finance Corporation, the International Development Association, or the Inter-American Development Bank;

(ii) A foreign national government or its appropriate financial or central banking authority, 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 subdivision (i) of this subparagraph in such manner that default to the Corporation will necessarily include default to such institution;

(iii) The national government of any foreign country in which the Corporation has a branch or agency with at least equal outstanding liabilities payable in the same currency;

(iv) Any person if the Corporation is not engaged in banking and the obligations or total credit are subject to 25 per cent support or participation of the type described in subdivision (ii) of this subparagraph; but the total liabilities of such person to the Corporation shall at no time exceed 100 per cent of its capital and surplus.

(c) **Aggregate liabilities.**—Except with prior Board permission, a Corporation's aggregate outstanding liabilities on account of acceptances, monthly average deposits, borrowings, guarantees, endorsements, debentures, bonds, notes, and other such obligations shall not exceed ten times its capital and surplus; provided that aggregate outstanding unsecured liabilities under guarantees or similar agreements (described in § 211.7(d)(3)) may in no event exceed 50 per cent of its capital and surplus. In this paragraph "liabilities" does not include endorsements of bills having not more than six months to run, drawn and accepted by others.

(d) **Relations with banks.**—A Corporation controlled by a bank may not incur any liability to such bank that would cause (1) the total of such liabilities to exceed 10 per cent of the bank's capital and surplus or (2) the total liabilities to such bank of all Corporations which it controls to exceed 20 per cent thereof. A Corporation incurs a liability to a bank under this paragraph whenever such bank or any organization controlled by such bank (other than the Corporation or any organization controlled by it) makes (i) any investment in, or advance on the security of, the shares or obligations of such Corporation or any organization controlled by it or (ii) any extension of credit to, or any purchase under repurchase agreement from, such Corporation or any organization controlled by it.

(e) **Endorsement or guaranty.**—A Corporation which endorses or

guarantees any securities, notes, bills, drafts, acceptances, or other evidences of indebtedness shall enter on its books proper records thereof, describing in detail each such instrument, including its amount, its maturity, the parties thereto, and the nature of the Corporation's liability thereon. Every financial statement of the Corporation submitted to the Board or made public in any way shall show the aggregate of such liabilities outstanding as of the date such statement purports to show the Corporation's financial condition.

(f) **Reports.**—Each Corporation shall make at least two reports 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.

(g) **Examinations.**—Examiners appointed by the Board will examine each Corporation at least once a year. Each Corporation shall obtain and make available to such examiners, among other things, information as to the earnings, finances, management, and other relevant aspects of any organization whose shares it holds. When required by the Board, a Corporation shall cause any organization controlled by it to submit to examination by examiners selected or auditors approved by the Board. The cost of examinations shall be fixed by the Board and paid by the Corporation.

SECTION 211.10—CORPORATIONS WITH AGREEMENTS UNDER
SECTION 25 OF THE ACT

In addition to any other requirements to which it may be subject, no corporation having an agreement or undertaking with the Board under section 25 of the Act shall purchase or hold any asset or otherwise exercise any power in the United States or abroad in any manner not permissible for a Corporation engaged in banking.

REGULATION K

APPENDIX

STATUTORY PROVISIONS

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

1. 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, either or both of the following powers:

2. 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.

3. 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.

* * * * *

5. 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.

6. Examinations and reports of condition

Every national banking association operating foreign branches shall

be required to furnish information concerning the condition 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.

7. 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 stockholdings in the said corporation upon reasonable notice.

8. 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.

9. 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.

* * * * *

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

1. 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.

2. 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.

3. Execution 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 businesses 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.

4. 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, all of whom shall be citizens of the United States; 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.

5. 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:

6. 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, but in no event having liabilities outstanding thereon at any one time exceeding ten times its capital stock and surplus; 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, depend-

encies, 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, but in no event less than 10 per centum of its deposits.

7. 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.

8. 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.

9. 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.

10. 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.

11. 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.

12. Capital stock

No corporation shall be organized under the provision 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: *Provided further,* That no such corporation shall have liabilities outstanding at any one time upon its debentures, bonds, and promissory notes in excess of ten times its paid-in capital and surplus. 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.

13. Citizenship of stockholders

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.

14. 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.

15. Shareholders' liability; corporation not to become member of Federal Reserve Bank

Shareholders in any corporation organized under the provisions 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.

16. 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 shall 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.

17. 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.

18. 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 of 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.

19. 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.

20. 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.

21. 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.

22. 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.

23. 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.

24. Criminal offenses of 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.

25. 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.