

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5958]
March 15, 1967]

Foreign Activities of Member Banks and Edge and Agreement Corporations
—Revision of Regulation M
—Amendment of Regulation K

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

Following is the text of a statement issued today by the Board of Governors of the Federal Reserve System:

The Board of Governors has adopted, effective March 15, 1967, a revision of its Regulation M. The principal purpose of the revision is to add to the regulation two new sections covering the purchase by national banks of stock of foreign banks and loans to such banks by the national banks. Under applicable law, Regulation M generally applies also to State-chartered banks that are members of the Federal Reserve System. Prior to this revision, the regulation covered only foreign branches of member banks.

The two new sections of the regulation added by the revision implement an amendment to section 25 of the Federal Reserve Act (12 U.S.C. 601-604a) that was approved July 1, 1966 (Public Law 89-485, section 12(b)). Under the amended law, any national bank having a capital and surplus of \$1 million or more, with the permission of the Board and pursuant to its regulations, may invest directly or indirectly in the stock of foreign banks and make loans or extensions of credit to such banks without regard to section 23A of the Federal Reserve Act (12 U.S.C. 371c), which places restrictions on loans by member banks to their affiliated organizations.

One of the new sections of the revised regulation (section 213.4) authorizes national banks that have obtained the permission of the Board to acquire the stock of foreign banks, but limits the total amount of these foreign bank investments to not more than 25 per cent of the capital and surplus of the investing U. S. bank taken together with its capital investments, if any, in so-called Edge and Agreement corporations operating pursuant to sections 25 and 25(a) of the Federal Reserve Act (12 U.S.C. 611-631). The new regulation does not require prior consent of the Board for U. S. banks to acquire or exercise stock rights in lieu of dividends which are declared on shares already held by the U. S. bank and which do not result in an increase in percentage ownership of the foreign bank. A conforming amendment to the Board's Regulation K, dealing with Edge and Agreement corporations, has been made in this respect.

The other new section of the revised regulation (section 213.5) authorizes U. S. banks which have a direct or indirect stock investment in foreign banks to make loans or extension of credit to such foreign banks without regard to the provisions of section 23A of the Federal Reserve Act. The provisions of Regulation K which restrict loans by Edge and Agreement corporations to their foreign affiliates has been deleted to conform that regulation to Regulation M.

The revision also amends Regulation M to increase to \$50,000 from \$20,000 the amount of credit which may be extended by a foreign branch of a U. S. bank to one of its executive officers for the purpose of acquiring or constructing living quarters for his use abroad.

Stock acquisitions in and loans or extensions of credit to foreign banks made pursuant to the revised regulation will be considered foreign investments for the purposes of the guidelines issued under the Voluntary Foreign Credit Restraint Program presently in effect.

(OVER)

The revision of Regulation M has been prepared in the light of comments received by the Board subsequent to publication of proposed revisions of the regulation in the *Federal Register* of August 16, 1966 and January 25, 1967.

In the January 25, 1967 proposed revision of the regulation a provision was included that would have required a domestic bank, when requested by the Board, to cause a foreign bank controlled by it to make reports to the Board and to submit to examinations by examiners selected or auditors approved by the Board. The Board's Regulation K has contained a comparable provision for a number of years. Although use of the provision in Regulation K has never been necessary, it has come to the Board's attention that such a provision might be regarded as having extraterritorial implications which were not intended. In order to avoid any misunderstanding on this point, the provision has been dropped from the revision of Regulation M and a conforming amendment to Regulation K has been made.

The Board expects that the foreign branches and affiliates of every member bank will conduct their affairs in accordance with the laws of the countries in which they carry on their activities. The Board further expects that member banks (and their foreign branches and affiliates) will conduct their activities, in the United States and abroad, on the basis of high standards of bank and financial prudence. Member banks are expected to make sufficient information available to the Board as will enable the Board to satisfy itself that those standards are being met.

Copies of the revision of Regulation M and the amendments to Regulation K will be sent to you at a later date. Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.