

January 7, 1971

To the Addressee:

Enclosed is a reprint, in the new size, of Regulation M, as amended effective January 7, 1971. It replaces your small-size printing of the regulation, as revised effective March 15, 1967, and of the amendments thereto, effective September 4, 1969 and January 7, 1971.

Circulars Division  
Federal Reserve Bank of New York

**BOARD OF GOVERNORS  
of the  
FEDERAL RESERVE SYSTEM**

---

**FOREIGN ACTIVITIES OF NATIONAL BANKS**

**REGULATION M**

(12 CFR 213)

As amended effective January 7, 1971



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

## CONTENTS

	Page		Page
SEC. 213.1—AUTHORITY AND SCOPE . . . . .	3	(c) Required information . . . . .	5
SEC. 213.2—DEFINITIONS . . . . .	3	(d) Reports . . . . .	5
SEC. 213.3—FOREIGN BRANCHES . . . . .	4	SEC. 213.5—LOANS OR EXTENSIONS OF CREDIT TO FOREIGN BANKS . . . . .	5
(a) Establishing foreign branches . . . . .	4	SEC. 213.6—CONDITIONS . . . . .	5
(b) Further powers of foreign branches . . . . .	4	SEC. 213.7—RESERVES AGAINST FOREIGN BRANCH DEPOSITS . . . . .	6
(c) Limitations . . . . .	4	(a) Transactions with parent bank . . . . .	6
(d) Suspending operations during dis- turbed conditions . . . . .	4	(b) Credit extended to United States residents . . . . .	6
SEC. 213.4—ACQUISITION AND HOLDING OF STOCK IN FOREIGN BANKS . . . . .	5	STATUTORY APPENDIX . . . . .	7
(a) General . . . . .	5		
(b) Limitations . . . . .	5		



# REGULATION M

(12 CFR 213)

As amended effective January 7, 1971

## FOREIGN ACTIVITIES OF NATIONAL BANKS \*

### SECTION 213.1—AUTHORITY AND SCOPE <sup>1</sup>

Pursuant to authority conferred upon it by section 25 of the Federal Reserve Act (the "Act"), as amended (12 U.S.C. 601-604a), the Board of Governors of the Federal Reserve System (the "Board") prescribes the following regulations relating to (a) foreign branches of national banks, (b) the acquisition and holding of stock in foreign banks by national banks, and (c) loans or extensions of credit to or for the account of such foreign banks by national banks.<sup>2</sup>

### SECTION 213.2—DEFINITIONS

For the purposes of this Part—

(a) **"Foreign branch"** means any branch established by a national bank pursuant to section 25 of the Act.

(b) **"Foreign country"** or **"country"** means any foreign nation or colony, dependency, or possession thereof, any overseas territory, dependency, or insular possession of the United States, or the Commonwealth of Puerto Rico.

(c) **"Foreign bank"** means a bank organized under the law of a foreign country and not engaged, directly or indirectly, in any activity in the United States except as, in the judgment of the Board, shall be incidental to the international or foreign business of such foreign bank.

\* This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 213, cited as 12 CFR 213. The words "this Part," as used herein, mean Regulation M.

<sup>1</sup> Insofar as provisions of Federal law are concerned, the provisions of this Part apply to State member banks of the Federal Reserve System as well as to national banks.

<sup>2</sup> The subject matter of this Part is in addition to that contained in 12 CFR Part 211 (Reg. K).



## SECTION 213.3—FOREIGN BRANCHES

(a) **Establishing foreign branches.** A foreign branch may be established with prior Board permission. If a national bank has established a branch in a foreign country, it may, unless otherwise advised by the Board, establish other branches in that country after thirty days' notice to the Board with respect to each such branch.

(b) **Further powers of foreign branches.** In addition to its other powers, a foreign branch may, subject to §§ 213.3(c) and 213.6 and *so far as usual in connection with the transaction of the business of banking in the places where it shall transact business:*

(1) Guarantee customers' debts or otherwise agree for their benefit to make payments on the occurrence of readily ascertainable events,<sup>3</sup> if the guarantee or agreement specifies its maximum monetary liability thereunder; but, except to the extent secured with respect thereto, no national bank may have such liabilities outstanding (i) in an aggregate amount exceeding 50 per cent of its capital and surplus or (ii) for any customer in excess of the amount by which 10 per cent of its capital and surplus exceeds the aggregate of such customer's "obligations" to it which are subject to any limitation under section 5200 of the Revised Statutes (12 U.S.C. 84);

(2) Accept drafts or bills of exchange drawn upon it, which shall be treated as "commercial drafts or bills" for the purposes of paragraphs (c), (d), and (e) of § 203.1 of Part 203 (Reg. C);

(3) Acquire and hold securities (including certificates or other evidences of ownership or participation) of the central bank, clearing houses, governmental entities, and development banks of the country in which it is located, unless after such an acquisition the aggregate amount invested by the branch in such securities (exclusive of securities held as required by the law of that country or as authorized under section 5136 of the Revised Statutes (12 U.S.C. 24)) would exceed one per cent of its total deposits on the preceding year-end call report date (or on the

<sup>3</sup> 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.

date of such acquisition in the case of a newly established branch which has not so reported);

(4) Underwrite, distribute, buy, and sell obligations of the national government of the country in which it is located,<sup>4</sup> but no bank may hold, or be under commitment with respect to, obligations of such a government as a result of underwriting, dealing in, or purchasing for its own account in an aggregate amount exceeding 10 per cent of its capital and surplus;

(5) Take liens or other encumbrances on foreign real estate in connection with its extensions of credit, whether or not of first priority and whether or not such real estate is improved or has been appraised, and without regard to the maturity or amount limitations or amortization requirements of section 24 of the Act (12 U.S.C. 371);

(6) Extend credit to an executive officer of the branch in an amount not to exceed \$50,000 or its equivalent in order to finance the acquisition or construction of living quarters to be used as his residence abroad, provided each such credit extension is promptly reported to its home office;

(7) Pay to any officer or employee of the branch a greater rate of interest on deposits than that paid to other depositors on similar deposits with the branch.

(c) **Limitations.** Nothing in § 213.3(b) shall authorize a foreign branch to engage in the general business of producing, distributing, buying, or selling goods, wares, or merchandise or, except as permitted by § 213.3(b) (4), to engage or participate, directly or indirectly, in the business of underwriting, selling, or distributing securities.

(d) **Suspending operations during disturbed conditions.** The officer in charge of a foreign branch 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 branch's home office, which shall immediately send a copy thereof to the Board through the Federal Reserve Bank of its district.

<sup>4</sup> Including obligations issued by any agency or instrumentality, and supported by the full faith and credit, of such government.

### SECTION 213.4—ACQUISITION AND HOLDING OF STOCK IN FOREIGN BANKS

(a) **General.** With the prior consent of the Board, and subject to the provisions of section 25 of the Act and this Part, a national bank may acquire and hold directly or indirectly<sup>5</sup> the stock or other evidences of ownership in one or more foreign banks: *Provided*, That the aggregate amount invested directly or indirectly (other than through a corporation operating under section 25 of the Act or organized under section 25(a) of the Act) in the stock or other evidences of ownership of all foreign banks, taken together with investments by the national bank in the shares of corporations operating under section 25 of the Act or organized under section 25(a) of the Act, shall not exceed 25 per cent of the national bank's capital and surplus. Nothing contained in this Part shall prevent the acquisition and holding of stock or other evidences of ownership in a foreign bank where such acquisition is necessary to prevent a loss upon a debt previously contracted in good faith; but such stock or other evidences of ownership shall be disposed of within twelve months from the date of acquisition unless such time is extended by the Board.

(b) **Limitations.** Stock or other evidences of ownership in a foreign bank shall be disposed of as promptly as practicable if (1) such bank should engage in the business of underwriting, selling, or distributing securities in the United States or (2) the national bank is advised by the Board that its holding is inappropriate under section 25 of the Act or this Part. The terms "stock", "shares", and "evidences of ownership" in this section include any right to acquire stock, shares, or evidences of ownership, except that prior Board consent is not required for the acquisition and exercise of stock rights in lieu of dividends which are declared on shares already held by a national bank and which do not result in an increase in percentage ownership of the foreign bank.

(c) **Required information.** A national bank applying for the consent of the Board to acquire and hold stock or other evidences of ownership

<sup>5</sup> However, prior consent of the Board is not required hereunder for indirect acquisitions in the stock of foreign banks made pursuant to the general consent provisions of § 211.8 of Part 211 (Reg. K).

in a foreign bank pursuant to this section shall furnish full information concerning such foreign bank including (unless previously furnished): (1) the cost, number, and class of shares to be acquired, and the proposed carrying value of such shares on the books of the national bank; (2) recent balance sheet and income statement of the foreign bank; (3) brief description of the foreign bank's business (including full information concerning any direct or indirect business transacted in the United States); (4) lists of directors and principal officers (with address and principal business affiliation of each) and of all shareholders known to the issuing bank holding 10 per cent or more of any class of the foreign bank's stock or other evidences of ownership, and the amount held by each; and (5) information concerning the rights and privileges of the various classes of shares outstanding.

(d) **Reports.** A national bank shall immediately inform the Board through the Federal Reserve Bank of its district with respect to any acquisition or disposition of stock in a foreign bank including the cost and number of shares acquired pursuant to this section.

### SECTION 213.5—LOANS OR EXTENSIONS OF CREDIT TO FOREIGN BANKS

A national bank which holds directly or indirectly<sup>6</sup> stock or other evidences of ownership in a foreign bank may make loans or extensions of credit to or for the account of such foreign bank without regard to the provisions of section 23A of the Act (12 U.S.C. 371c).

### SECTION 213.6—CONDITIONS

(a) The continued or prospective exercise of any power under this Part shall be subject to any notice interpreting or applying it that a national bank may receive from the Board, and such bank shall immediately comply therewith.

(b) The Board may from time to time require a national bank to make reports at such time and in such form as the Board may prescribe regarding the exercise of any power hereunder and to submit information regarding compliance with this Part.

<sup>6</sup> Whether through a corporation operating under section 25 of the Act or organized under section 25(a) of the Act, or otherwise.



SECTION 213.7—RESERVES AGAINST  
FOREIGN BRANCH DEPOSITS

(a) **Transactions with parent bank.** During each week of the four-week period beginning October 16, 1969, and during each week of each successive four-week ("maintenance") period, a member bank having one or more foreign branches shall maintain with the Reserve Bank of its district, as a reserve against its foreign branch deposits, a daily average balance equal to 20 per cent of the amount by which the daily average total of

(1) net balances due from its domestic offices to such branches, and

(2) assets (including participations) held by such branches which were acquired from its domestic offices,<sup>7</sup>

during the four-week ("computation") period ending on the Wednesday fifteen days before the beginning of the maintenance period, exceeds the greater of

(i) the corresponding daily average total<sup>8</sup> for the computation period ending November 25, 1970, or the lowest corresponding daily average total for any computation period beginning after that date, whichever amount is the lesser, or

(ii) 3 per cent of the member bank's daily average deposits subject to § 204.5(a) of this chapter (Regulation D) during the current computation period, or, if the bank has had a foreign branch in operation for more than 90 days, the lowest corresponding daily average total for any computation period beginning on or after December 24, 1970, whichever amount is the lesser:

<sup>7</sup> Excluding (1) assets so held on June 26, 1969, representing credit extended to persons not residents of the United States and (2) credit extended or renewed by a domestic office after June 26, 1969, to persons not residents of the United States to the extent such credit was not extended in order to replace credit outstanding on that date which was paid prior to its original maturity (see definition of United States resident in footnote 9).

<sup>8</sup> Excluding assets representing credit extended to persons not residents of the United States.

*Provided*, That the applicable base computed under (i) or (ii) shall be reduced by the daily average amount of any deposits of the member bank subject to § 204.5(c) of this chapter (Regulation D) during the computation period.

(b) **Credit extended to United States residents.** During each week of the four-week period beginning October 16, 1969, and during each week of each successive four-week maintenance period, a member bank having one or more foreign branches shall maintain with the Reserve Bank of its district, as a reserve against its foreign branch deposits, a daily average balance equal to 20 per cent of the amount by which daily average credit outstanding from such branches to United States residents<sup>9</sup> (other than assets acquired and net balances due from its domestic offices), during the four-week computation period ending on Wednesday fifteen days before the beginning of the maintenance period, exceeds the corresponding daily average total during the four-week period ending on November 25, 1970: *Provided*, That this paragraph does not apply to credit extended (1) by a foreign branch which at no time during the computation period had credit outstanding to United States residents exceeding \$5 million, (2) to enable the borrower to comply with requirements of the Office of Foreign Direct Investments, Department of Commerce,<sup>10</sup> or (3) under binding commitments entered into before December 1, 1970.

<sup>9</sup> (a) Any individual residing (at the time the credit is extended) in any State of the United States or the District of Columbia; (b) any corporation, partnership, association or other entity organized therein ("domestic corporation"); and (c) any branch or office located therein of any other entity wherever organized. Credit extended to a foreign branch, office, subsidiary, affiliate or other foreign establishment ("foreign affiliate") controlled by one or more such domestic corporations will not be deemed to be credit extended to a United States resident if the proceeds will be used in its foreign business or that of other foreign affiliates of the controlling domestic corporation(s).

<sup>10</sup> The branch may in good faith rely on the borrower's certification that the funds will be so used.

## STATUTORY APPENDIX

Section 25 of the Federal Reserve Act provides in part as follows:

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, the following powers:

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.

\*\*\*

Third. To acquire and hold, directly or indirectly, stock or other evidences of ownership in one or more banks organized under the law of a foreign country or a dependency or insular possession of the United States and not engaged, directly or indirectly, in any activity in the United States except as, in the judgment of the Board of Governors of the Federal Reserve System, shall be incidental to the international or foreign business of such foreign bank; and, notwithstanding the provisions of section 23A of this Act, to make loans or extensions of credit to or for the account of such bank in the manner and within the limits prescribed by the Board by general or specific regulation or ruling.

\* \* \* \* \*

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.

[U.S.C., title 12, sec. 601.]

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.

[U.S.C., title 12, sec. 602.]

\* \* \* \* \*

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.

[U.S.C., title 12, sec. 604.]

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.

[U.S.C., title 12, sec 604a.]