

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 6753
June 23, 1971

BANK HOLDING COMPANIES
Proposed Amendments to Regulation Y

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

Following is the text of a statement issued June 16 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today proposed regulatory language to implement two provisions of the 1970 amendments to the Bank Holding Company Act that relate to nonbanking activities and interests in the United States of foreign bankholding companies and to foreign acquisitions of domestic bank holding companies.

Comments on the proposals, which would implement sections 4(c)(9) and 4(c)(13) of the Act, should be submitted to the Board no later than July 23.

These sections permit bank holding companies to make acquisitions of nonbanking interests if the Board determines that, under the circumstances and subject to appropriate conditions, such acquisitions would not be substantially at variance with the purposes of the Act and would be in the public interest. Section 4(c)(9) pertains to acquisitions of companies that do some business in the United States by foreign bank holding companies that conduct the greater part of their business outside the United States. Section 4(c)(13) pertains to foreign acquisitions by domestic bank holding companies.

The Board's proposal to implement section 4(c)(9) would, with certain exceptions, permit a foreign bank holding company that does the greater part of its business outside the United States to:

1. Engage directly in nonbanking activities outside the United States.
2. Engage directly in nonbanking activities in the United States that are merely incidental to its activities outside the United States.
3. Acquire companies whose domestic business is merely incidental to their international or foreign business.
4. Acquire noncontrolling interests in foreign companies which do less than 20 per cent of their business in the United States.

Under the proposal to implement section 4(c)(13), a domestic bank holding company would be permitted to acquire, with the Board's prior approval, shares of any company in which an Edge Act corporation may invest. The Edge Act, enacted by Congress in 1919, authorizes the Board to charter corporations engaged in foreign banking and other foreign financial operations and to regulate the activities of such corporations. Under this proposal the Board would retain authority to impose conditions regarding the operations of foreign subsidiaries of domestic bank holding companies similar to those conditions that it has customarily imposed regarding the operations of foreign subsidiaries of Edge Act corporations.

Printed on the reverse side is the text of the proposed amendments. Comments thereon should be submitted by July 23 and may be sent to our Bank Applications Department. Additional copies of this circular will be furnished upon request.

Alfred Hayes,
President.

(Over)

(Reg. Y)
BANK HOLDING COMPANIES
Nonbanking Activities and Interests

By Act of Congress approved December 31, 1970 (Public Law 91-607) the Bank Holding Company Act was expanded to cover companies that control only one bank. In conjunction with that expansion Congress amended section 4(c)(9) and added section 4(c)(13) of that Act to authorize the Board to exempt activities and investments of foreign bank holding companies and foreign investments of domestic bank holding companies "if the Board by regulation or order determines that, under the circumstances and subject to the conditions set forth in the regulation or order, the exemption would not be substantially at variance with the purposes of this Act and would be in the public interest."

The Board proposes to add a new paragraph (f) to section 222.4 of Regulation Y to implement its authority under section 4(c)(9). Under the proposal a foreign-based bank holding company could (1) engage directly in nonbanking activities outside the United States, (2) engage directly in nonbanking activities in the United States that are merely incidental to its activities outside the United States, (3) invest in companies that do no business in the United States except as an incident to their international or foreign business, and (4) own noncontrolling interests in foreign companies more than 80 per cent of whose consolidated assets and revenues are located and derived outside the United States, other than companies engaged in the business of underwriting, selling or distributing securities in the United States. A foreign-based bank holding company may seek the Board's determination whether other activities or investments not enumerated in the Regulation might, under the circumstances of a particular application and subject to appropriate conditions, be eligible for exemption under the standards prescribed in section 4(c)(9).

This proposal reflects the Board's view that the purposes of the Act can be achieved without undue interference with foreign banking operations in other countries that are likely to have only incidental effects in the United States. The Board considers it unlikely that the foreign banking activities that it proposes to exempt will have adverse consequences in the United States of the type that Congress intended to prevent through section 4 of the Act.

The Board also proposes to add a new paragraph (g) to section 222.4 of Regulation Y to implement its authority under section 4(c)(13). Under this proposal a domestic bank holding company could, with prior consent of the Board, invest in any company in which an Edge Act corporation may invest. The procedures under which the Board will grant its consent would be the same as those set forth in § 211.8 of Regulation K. The Board believes that it is both consistent with the purposes of the Act and in the public interest that the foreign operations of domestic bank holding companies be subject to the Board's surveillance in the same manner as the foreign operations of member banks and Edge corporations.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than July 23, 1971. Such material will be made available for inspection and copying upon request, except as

provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

The proposed new paragraphs of Regulation Y read as follows:

§ 222.4 Nonbanking activities and interests.

* * * * *

(f) Foreign bank holding companies. (1) A bank holding company, organized under the laws of a foreign country, more than half of whose consolidated assets and revenues are located and derived outside the United States may:

(i) engage in direct activities of any kind outside the United States,

(ii) engage in direct activities in the United States that are incidental to its activities outside the United States,

(iii) own or control voting shares of any company (other than a bank holding company) that is not engaged, directly or indirectly, in any activities in the United States except as shall be incidental to the international or foreign business of such company, and

(iv) own or control voting shares of any company organized under the laws of a foreign country (other than a bank holding company) if (A) more than 80 per cent of such company's consolidated assets and revenues are located and derived outside the United States, (B) such company is not a subsidiary of such bank holding company, and (C) such company does not engage in the business of underwriting, selling, or distributing securities in the United States.

(2) A bank holding company, organized under the laws of a foreign country, that is of the opinion that other activities or investments may, in particular circumstances, meet the conditions for an exemption under section 4(c)(9) of the Act may apply to the Board for such a determination by submitting to the Reserve Bank of the district in which its banking operations in the United States are principally conducted a letter setting forth the basis for that opinion.

(3) A bank holding company shall inform the Board through such Reserve Bank within 30 days after the close of each quarter with respect to the acquisition during that quarter pursuant to an exemption under this paragraph (f) of voting shares of any companies that do any business whatsoever in the United States, including the following information concerning any company whose voting shares it acquired for the first time (unless previously furnished): (1) Recent balance sheet and income statement, (2) brief descriptions of the company's business (including full information concerning any business transacted in the United States) and the shares acquired, (3) lists of directors and principal officers (with address and principal business affiliation of each) and of all shareholders (known to the issuing company) holding 10 per cent or more of any class of the company's voting shares (and the amount held by each).

(g) Foreign activities of domestic bank holding companies. Any bank holding company may own or control voting shares of any company in which a company organized under section 25(a) of the Federal Reserve Act (12 U.S. C. 611-631) may invest, provided that it acquires ownership or control of such shares with prior consent of the Board in accordance with the procedures of § 211.8 of this chapter (§ 211.8 of Regulation K). A bank holding company shall comply with such conditions as the Board may prescribe with respect to any such acquisition. It shall also comply with the conditions in § 211.8 of this chapter regarding disposition of shares so acquired and shall report on any acquisition or disposition of shares as therein provided.