

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 7161  
June 7, 1973]

REGULATIONS K AND M

Statement of Policy on Availability of Information to Facilitate Supervision  
by Board of Governors of Foreign Operations of Member Banks

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

Printed below is the text of an interpretation of Regulation K, "Corporations Engaged in Foreign Banking and Financing Under the Federal Reserve Act," and Regulation M, "Foreign Activities of National Banks," issued May 31 by the Board of Governors of the Federal Reserve System. The interpretation consists of a statement of policy by the Board of Governors on the availability of information to facilitate supervision by the Board of Governors of foreign operations of member banks.

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,  
*President.*

[Regs. K and M]

12 CFR PART 211—CORPORATIONS ENGAGED IN FOREIGN BANKING AND FINANCING  
UNDER THE FEDERAL RESERVE ACT

12 CFR PART 213—FOREIGN ACTIVITIES OF NATIONAL BANKS

§ 211.110 Statement of policy on availability of information to facilitate supervision of foreign operations of member banks.

For text of interpretation, see § 213.104 of this chapter.

§ 213.104 Statement of policy on availability of information to facilitate supervision of foreign operations of member banks.

For the guidance of member banks having foreign operations, the Board publishes the following statement of policy regarding availability of information pertaining to member banks' foreign branches and subsidiaries to enable proper supervision of those operations:

(a) The Board of Governors of the Federal Reserve System, as a central bank, is properly concerned with the preservation and promotion of a sound banking

system in the United States. The Board of Governors and other federal banking supervisory authorities have been given specific statutory responsibilities to assure that banking institutions are operated in a safe and prudent manner affording protection to depositors and providing adequate and efficient banking services to the public on a continuing basis. These responsibilities and concerns are shared by central banks and bank supervisors the world over.

(b) Under sections 25 and 25(a) of the Federal Reserve Act, the Board has particular responsibilities to supervise the international operations of member banks in the public interest. In carrying out these responsibilities, the Board has sought to assure that the international operations of member banks would not only foster the foreign commerce of the United States but that they would also be conducted so as not to encroach

(Over)

on the maintenance of a sound and effective banking structure in the United States. In keeping with the latter consideration, the Board believes it incumbent upon member banks to supervise and administer their foreign branches and subsidiaries in such a manner as to assure that their operations are conducted at all times in accordance with high standards of banking and financial prudence.

(c) Proper administration and supervision of foreign branches and subsidiaries require the use of effective systems of records, controls, and reports that will keep the bank's management informed of the activities and condition of its branches and subsidiaries. At a minimum, such systems should provide the following:

(1) **Risk assets.** To permit assessment of exposure to loss, information furnished or available to head office should be sufficient to permit periodic and systematic appraisals of the quality of loans and other extensions of credit. Coverage should extend to a substantial proportion of the risk assets in the branch or subsidiary, and include the status of all large credit lines and of credits to customers also borrowing from other offices of the bank. Information on credit extensions should include (i) a recent financial statement of the borrower and current information on his financial condition; (ii) credit terms, conditions, and collateral; (iii) data on any guarantors; (iv) payment history; and (v) status of corrective measures employed.

(2) **Liquidity.** To enable assessment of local man-

agement's ability to meet its obligations from available resources, reports should identify the general sources and character of the deposits, borrowings, etc., employed in the branch or subsidiary with special reference to their terms and volatility. Information should be available on sources of liquidity—cash, balances with banks, marketable securities, and repayment flows—such as will reveal their accessibility in time and any risk elements involved.

(3) **Contingencies.** Data on the volume and nature of contingent items such as loan commitments and guaranties or their equivalents that permit analysis of potential risk exposure and liquidity requirements.

(4) **Controls.** Reports on the internal and external audits of the branch or subsidiary in sufficient detail to permit determination of conformance to auditing guidelines. Such reports should cover (i) verification and identification of entries on financial statements; (ii) income and expense accounts, including descriptions of significant charge-offs and recoveries; (iii) operation of dual-control procedures and other internal controls; (iv) conformance to head office guidelines on loans, deposits, foreign exchange activities, proper accounting procedures, and discretionary authority of local management; (v) compliance with local laws and regulations; and (vi) compliance with applicable U.S. laws and regulations.

By order of the Board of Governors of the Federal Reserve System, May 31, 1973.