

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 7516]
[December 3, 1974]

**Proposed Legislation To Regulate
Foreign Banking Organizations Operating in the United States**

*To Branches and Agencies of Foreign Banking Corporations,
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 of the Federal Reserve System today sent to Congress proposed legislation to establish a national policy on foreign banks operating in the United States, and a system of Federal regulation and supervision of those operations.

The proposed legislation would standardize the status of foreign banks operating in the United States and place them basically under the same rules and regulations that must be observed by domestic banks.

Foreign banking in the United States has grown from \$6.5 billion in assets in 1966 to \$38 billion as of the end of 1973. There are currently more than 60 foreign banks with U.S. operations. In explaining the basic reasons for recommending the adoption of the proposed legislation, the Board included the following statement in its transmittal to Congress:

"Foreign banks have in recent years been coming to the United States in increasing numbers and operating through branches, agencies, and subsidiary banks. The scale and nature of foreign bank activities through these facilities is now significant in terms of competition within the banking industry and of the functioning of money and credit markets. This movement by foreign banks into the United States is part of the broader development of multinational banking in which United States banks are deeply involved through their extensive operations overseas. The multinational banking system that has evolved as a result of the establishment by the world's leading commercial banks of banking and financing facilities on a global basis is now a key element in the world's financial system. Its functioning has far-reaching ramifications for international financial policy and for the economic and financial policies of individual nations."

At present, foreign banks operating in this country do so on terms determined almost exclusively by State laws. Among the conditions that have resulted from this are the following:

A prohibition of foreign banking in some states and its permission in others; multi-state banking by foreign-owned organizations; lack of constraints on nonbanking activities by foreign banks; the fact that few foreign banks are members of the Federal Reserve System, although they are for the most part large banks (all but a few large domestic banks are members), thus excluding a growing sector of money and credit from the direct influence of Federal Reserve monetary policy; the fact that the Federal Government can play only a limited role in foreign bank operations in the United States, although this has important implications for U.S. foreign relations.

The proposed legislation would standardize the status of foreign banks, their branches and agencies, on the basis of nondiscriminatory national treatment, aimed at providing foreign banks with the same opportunities to conduct activities in this country as are available to domestic banks and subjecting them to the same rules.

The legislation would also provide for a Federal role in licensing and supervising foreign bank operations. The Comptroller of the Currency would issue licenses for all foreign banking facilities in the United States upon approval of the Secretary of the Treasury. The Comptroller would also supervise foreign-owned national banks and Federally insured branches of foreign banks. The Federal Reserve would exercise supervisory authority under the Federal Reserve Act and the Bank Holding Company Act.

The Federal Deposit Insurance Corporation would be required to submit proposals to extend its deposit insurance, now covering subsidiaries of foreign banks, to branches and agencies.

The proposed legislation culminates months of extensive work by a special Federal Reserve Steering Committee on International Banking Regulation headed by George W. Mitchell, Vice Chairman of the Board.

The main provisions of the proposal are:

1. **Coverage:** The Bank Holding Company Act would be redefined to include branches and agencies — as well as subsidiaries which are presently covered — of foreign banks, bringing nearly all foreign banks with depository and lending functions in the United States under the Bank Holding Company Act.

2. **Equality of Treatment:** In addition to bringing virtually all foreign bank operations in the United States under the Bank Holding Company Act, equality of treatment with respect to domestic banking would be provided by facilitating foreign ownership of national banks, enabling licensing of a Federally chartered branch, permitting foreign banks to own Edge Act Corporations, by requiring Federal Reserve membership in most instances and by FDIC insurance of deposits in branches and agencies.

3. **Entry:** The National Banking Act would be amended to permit up to half of the directors of a national bank — all of whose directors must now be U.S. citizens — to be foreigners. The Comptroller would also be empowered to license branches of foreign banks to conduct a banking business in any State on the same basis as a national bank.

4. **Edge Corporations:** The section of the Federal Reserve Act dealing with establishment of Edge Act Corporations — subsidiaries of member banks in the United States that deal with foreign financial transactions — would be amended to allow foreign banks to conduct foreign business throughout the United States on the same basis as domestic banks, without majority control by U.S. citizens.

5. **Federal Reserve Membership:** Membership would be required for branches, agencies, and subsidiaries of a foreign bank where the parent foreign bank had worldwide assets exceeding \$500 million.

6. **Grandfathering:** Multi-state banking operations of foreign banks, in operation as of the date of introduction of the legislation, would be permanently grandfathered and could be expanded where existing, in accordance with State law. Nonbanking interests of foreign banks covered by the legislation would also be permanently grandfathered if in operation as of the date of introduction of the legislation. This includes securities affiliates of foreign banks in the United States.

Copies of the Board of Governors' transmittal letter to Congress, a summary of the proposed legislation, and the text of the draft bill will be furnished upon request directed to our Foreign Banking Applications Department.

ALFRED HAYES,
President.