

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 7702]
September 3, 1975]

FOREIGN ACTIVITIES OF MEMBER BANKS

Amendments to Regulation M; Revised Interpretation of Regulation O

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

The Board of Governors of the Federal Reserve System has amended its Regulation M, "Foreign Activities of National Banks," regarding (a) extensions of credit to executive officers of foreign branches and (b) insurance agency and brokerage activities of foreign branches. In this connection, the Board of Governors has also revised an interpretation of its Regulation O concerning loans to executive officers of foreign branches.

In submitting the amendments and revised interpretation for publication in the *Federal Register*, the Board of Governors made the following statement:

On March 27, 1975, a proposal regarding amendments to §213.3(b) was published in the *Federal Register* (40 F.R. 13524). Interested persons were given until May 9, 1975, to submit written comments, suggestions or objections. The Board has reviewed all comments received and has decided to adopt the following amendments.

The first amendment concerns the amount of credit which a foreign branch of a member bank may extend to an executive officer of the branch 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. The original amendment proposed by the Board would have increased the loan limit to \$100,000 and did not provide for any circumstances under which that limit could be exceeded. Most comments received from commercial banks in response to the Board's proposal pointed out that in many countries the \$100,000 figure would be inadequate. Although the specific dollar limit has the advantage of uniformity, the Board was concerned that the purpose of the regulation might be frustrated by the wide variations in housing costs from one country to the next. Therefore, in view of the comments received, the Board has adopted an amendment which provides more flexibility to the foreign branches in extending credit to their executive officers. Under the amendment the proposed \$100,000 limit is retained, but it may be exceeded, with the prior specific approval of the parent bank's board of directors, in order to compensate for the disparity of housing costs among countries. The procedures contained in the amendment are similar to those of section 22(g) of the Federal Reserve Act, 12 U.S.C. 375(a).

In connection with this amendment, the Board is revising Published Interpretation ¶5620, 12 CFR 215.103, in order to (1) reflect the new amendment to Regulation M and (2) correct the references to section 213.4(f) to read "213.3(b)."

The second amendment to Regulation M allows foreign branches of member banks to engage in insurance agency and brokerage activities where such activities are usual in connection with the transaction of the business of banking in the place where the foreign branch transacts its business. The Board has received several comments supporting the proposed amendment. No comments have been received opposing adoption of the amendment. The amendment has thus been adopted without any changes.

In consideration of the comments received and pursuant to section 25 of the Federal Reserve Act (76 Stat. 388; 12 U.S.C. 604a), 12 CFR Parts 213 and 215 are amended as set forth below. As these amendments are intended to relieve a restriction or grant an exemption, they shall become effective immediately.

The text of the proposed amendments to Regulation M is contained in our Circular No. 7603, which was sent to you on April 3, 1975.

Enclosed is a copy of the amendments and revised interpretation. Any questions regarding this matter may be directed to our Foreign Banking Applications Department.

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System

LOANS TO EXECUTIVE OFFICERS OF MEMBER BANKS

Interpretation of Regulation O

§ 215.103. Loans to executive officers of foreign branches of national and State member banks.

(a) Section 22(g) of the Federal Reserve Act (12 U.S.C. 375a) provides, with certain exceptions, that "no executive officer of any member bank shall borrow from or otherwise become indebted to any member bank of which he is an executive officer, and no member bank shall make any loan or extend credit in any other manner to any of its own executive officers. . . ." Pursuant to the authority conferred by the ninth paragraph of section 25 of the Federal Reserve Act (12 U.S.C. 604a), which was added to that section by the Act of August 15, 1962 (Public Law 87-588), the Board of Governors in §213.3(b) of this subchapter (Regulation M) has, subject to certain conditions, authorized foreign branches of national banks to make certain home loans to their executive officers. The question has arisen whether foreign branches of State member banks would violate section 22(g) by extending credit to their executive officers to the same extent and subject to the same conditions as foreign branches of national banks. A separate but related question is whether executive officers of foreign branches of national (and State member) banks may borrow from their respective branches as envisaged by §213.3(b) of this subchapter.

(b) It is manifest that in enacting section

22(g) Congress intended that identical rules regarding loans to executive officers should apply to both national and State member banks. Moreover, the legislative history of the ninth paragraph of section 25 (Act of August 15, 1962) clearly establishes that Congress did *not* intend thereby to confer upon national banks any special advantages vis-a-vis State member banks. This Congressional intent is further evidenced by the provision regarding establishment of branches in the third paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 321) that "nothing herein contained shall prevent any State member bank from establishing and operating branches in the United States or any dependency or insular possession thereof or in any foreign country, on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by national banks. . . ."

(c) On the basis of the foregoing considerations, the Board of Governors is of the opinion that foreign branches of State member banks would not violate section 22(g) by extending credit to their executive officers subject to the same restrictions and conditions as apply to foreign branches of national banks under §213.3 (b) of this subchapter. The Board also believes that it would not violate section 22(g) for an executive officer of a foreign branch of a national or State member bank to borrow from such branch to the same extent to which the branch may extend him credit.

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Board of Governors of the Federal Reserve System

FOREIGN ACTIVITIES OF
NATIONAL BANKS

AMENDMENTS TO REGULATION M

Effective August 25, 1975, Regulation M is amended by revising §213.3(b) subparagraph (6), by substituting a semicolon for the period at the end of subparagraph (7), and by adding a new subparagraph (8). As amended, §213.3 (b) reads as follows:

SECTION 213.3—FOREIGN BRANCHES

* * *

(b) **Further powers of foreign branches.** In addition to its other powers, a foreign branch may, subject to paragraph (c) of this section 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:*

* * *

(6) Extend credit to an executive officer of the branch in an amount not to exceed \$100,000 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; *Provided, however,* That, with the specific prior approval of the parent bank's board of directors, such amount limitation may be exceeded when necessary to meet local housing costs.

(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;

(8) Act as insurance agent or broker.

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