

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7720]
September 29, 1975]

INTERPRETATION OF REGULATIONS K AND Y
Computation of Amount Invested in Foreign Corporations

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

On September 12, 1975, the Board of Governors of the Federal Reserve System issued an interpretation of its Regulation K—Corporations Engaged in Foreign Banking and Financing Under the Federal Reserve Act—and Regulation Y—Bank Holding Companies—regarding computation of the amount invested in foreign corporations under general consent procedures.

In submitting the interpretation for publication in the *Federal Register* the Board made the following statement:

Under section 211.8(a) of Regulation K, the Board of Governors grants its general consent for a corporation organized under section 25(a) of the Federal Reserve Act (an "Edge Act Corporation") to invest, directly or indirectly, in the shares of foreign corporations not doing business in the United States; but no investment thereunder shall cause an Edge Act Corporation to have invested more than \$500,000 in the shares, or to hold more than 25 per cent of the voting shares, of any foreign corporation. The Board of Governors has ruled that in computing the \$500,000 limitation under these general consent procedures, an Edge Act Corporation must include not only amounts actually paid in to the foreign corporation for its shares but also unpaid amounts on the shares of the corporation for which the Edge Act Corporation will be liable. If the total of such amounts exceeds \$500,000, the Edge Act Corporation must apply for the Board's specific consent to make such investment.

This interpretation also applies to the foreign investments of domestic bank holding companies since, under Regulation Y, the consent procedures of Regulation K also govern such investments.

Enclosed is a copy of the interpretation. Inquiries regarding this matter may be directed to our Foreign Banking Applications Department. Additional copies of the enclosure will be furnished upon request.

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System

BANK HOLDING COMPANIES

INTERPRETATION OF REGULATIONS K AND Y

§ 211.111 **Computation of Amount Invested**
§ 225.133 **in Foreign Corporations Under**
General Consent Procedures.

(a) Under section 211.8(a) of Regulation K, the Board of Governors grants its general consent for a corporation organized under section 25(a) of the Federal Reserve Act (an "Edge Act Corporation") to invest, directly or indirectly, in the shares of foreign corporations not doing business in the United States; but no investment thereunder shall cause an Edge Act Corporation to have invested more than \$500,000 in the shares, or to hold more than 25 per cent of the voting shares, of any foreign corporation. Under § 225.4(f)(2) of Regulation Y, these general consent procedures also govern the foreign investments of domestic bank holding companies made pursuant to section 4(c)(13) of the Bank Holding Company Act of 1956, as amended.

(b) In computing the \$500,000 limitation under the general consent procedures, an Edge Act Corporation or bank holding company must include not only amounts actually paid in for the shares of the foreign corporation but also any unpaid amounts on the shares of the foreign corporation for which the Edge Act Corporation or bank holding company will be liable. If the total of such amounts exceeds

\$500,000, then the Edge Act Corporation or bank holding company must apply for the Board's prior specific consent to make such investment.

(c) For example, an Edge Act Corporation plans to acquire a 20 per cent interest in a proposed foreign corporation by subscribing to 60,000 shares with a par value of \$10 per share. Initially, the shares will be 50 per cent paid in for an initial investment of \$300,000; under the Articles of Association of the proposed corporation, the unpaid balance of \$300,000 on the shares may be called at any time at the discretion of the corporation's board of directors. It appears that some Edge Act Corporations have in this situation only included in their computation the \$300,000 initially paid in to the foreign corporation, and would thus acquire the shares of the foreign corporation under the general consent procedures. The Board has determined that in this situation the total amount invested for purposes of the general consent procedures is \$600,000, as the Edge Act Corporation must include in the computation its liability for the unpaid balance on the shares. The proposed investment in this situation would therefore require prior specific Board consent.

By Order of the Board of Governors of the Federal Reserve System, September 12, 1975.

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