

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 7788 ]  
January 2, 1976

STOCK INTERESTS IN FOREIGN JOINT VENTURES  
Proposed Statement of Policy by Board of Governors

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

The Board of Governors of the Federal Reserve System has invited comment on a proposed statement of policy designed to deal with the participation by United States banking organizations in foreign joint ventures. The proposed policy would apply to applications requiring the Board's specific consent under Regulation K, "Corporations Engaged in Foreign Banking and Financing Under the Federal Reserve Act," Regulation M, "Foreign Activities of National Banks," and Regulation Y, "Bank Holding Companies."

On December 23, 1975, the Board of Governors issued the following statement:

The Board of Governors of the Federal Reserve System today published for comment a proposed statement of policy concerning the participation by United States banking organizations in foreign joint ventures.

The Board asked for comment in writing through January 24, 1976.

The proposed policy is designed to deal with possible future risks entailed in becoming a shareholder in foreign joint ventures.

Under the proposal, the Board would as a matter of policy take the following factors into account in considering whether to approve an application to invest in the stock of a foreign joint venture:

- (1) The possibility that the venture might have liquidity or other financial needs calling for additional financial support, and
- (2) The possibility that the additional support needed might be significantly larger than the original equity investment.

Consequently, the Board would consider such applications in the light of the applicant's ability to meet additional demands upon it, in the form either of financial or managerial support. The Board would therefore consider not only the amount of the investment proposed by the U.S. banking organization but also the risks associated with the total initial assets and liabilities of the venture, as well as its projected expansion.

The proposed policy is not intended to prohibit or discourage such venture investments abroad. The objective is to clarify for all parties concerned the probable magnitude of the risks involved. Thus, even though an applicant proposes to assume more than its proportional share of the risks in a joint venture, the Board would be willing to approve the investment if the applicant is able to bear the additional risk and if other factors, including the public interest, are consistent with approval.

The Board would likewise take into account any agreement or arrangement the applicant has with the other participants in the venture that would limit the applicant's risk to its initial investment, or some other fixed amount, or which provides a plan for the sharing of any additional investment among participants.

The proposed policy is intended to apply primarily to new investments in foreign joint ventures. Additional investment in existing joint ventures will be considered in the light of outstanding circumstances, including support already being given by the applicant to the foreign business and any agreements or arrangements it has with other participants.

Printed on the following pages is the text of the Board's proposal. Comments thereon should be submitted by January 24, 1976, and may be sent to our Foreign Banking Applications Department.

PAUL A. VOLCKER,  
*President.*

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

12 CFR PART 225—BANK HOLDING COMPANIES

The Board of Governors proposes to adopt a general statement of policy on the acquisition of stock interests in foreign joint ventures by U.S. banking organizations, which policy it would apply to applications requiring its specific consent under sections 25 and 25(a) of the Federal Reserve Act, and section 4(c)(13) of the Bank Holding Company Act of 1956, as amended. Accordingly, the policy would apply to applications requiring specific consent under the Board's Regulation K (for Edge or Agreement Corporations), Regulation M (for member banks), and Regulation Y (for bank holding companies).

In general, when a member bank or a corporation organized under section 25(a) of the Federal Reserve Act (an "Edge" corporation), or operating pursuant to an agreement with the Board under section 25 thereof (an "Agreement" corporation), or a bank holding company requests the Board's specific consent to acquire the stock or other certificates of ownership of a foreign joint venture, which is defined to mean a situation in which a U.S. banking organization with a minority share interest participates directly or indirectly in the overall management of a foreign corporation, the Board considers the degree of legal and practical business responsibility the U.S. banking organization will bear for the financial condition and operations of the foreign joint venture in foreign and international financial markets. In the Board's judgment, this factor is relevant in assessing what effects the proposed investment may have on the financial and managerial resources of the applying U.S. banking organization.

Based on the recent experience of certain foreign joint ventures in foreign and international financial markets, the Board has found that a U.S. banking organization may, in certain circumstances, feel impelled for business reasons to provide financial support to a foreign joint venture in which it has an equity interest in the event the venture has liquidity or other financial needs. This support may be substantially in excess of the U.S. banking organization's original equity investment and may, in some situations, be well in excess of its *pro-rata* share.

The Board therefore proposes to adopt the general policy that, in considering applications by U.S. banking organizations to invest in foreign joint ventures, it will take into account the possibility that the applicant may feel impelled for business reasons to provide financial support for such foreign joint venture in the event the venture has liquidity or other financial needs, and that such support could be significantly greater than the amount of its proposed equity investment. The Board would therefore consider such application in light of the relative ability of the applicant to meet the demands that such potential support could place on its financial and managerial resources. In doing so, the Board would take into consideration the risks associated with the total assets and liabilities of the foreign corporation and its projected expansion, and not merely the size of the proposed equity investment by the applicant.

If, however, in the case of any such proposed joint venture investment, the U.S. banking organization could establish on the record that it had reached an agreement or arrangement whereby its support of the proposed joint venture in the event of liquidity or other financial needs would be limited to its initial equity investment or to some fixed amount, or would be shared *pro-rata* or otherwise with the other shareholders, or would otherwise be limited, the Board would consider the application and the risks associated therewith on the basis of this additional information.

This proposed general statement of policy is not intended to prohibit or discourage investments by U.S. banking organizations in foreign joint ventures, which can be a useful form of corporate organization in appropriate circumstances; rather, due to the difficulty of ascertaining the precise risks undertaken in joint venture investments, its primary purpose would be to clarify for all parties concerned the probable dimensions of risks assumed in any particular investment. Thus, even if an applicant proposed to assume a disproportionate share of the risks in any joint venture, e.g., agreed to stand behind more than its *pro-rata* share of the joint venture's obligations, the Board might be willing to approve the investment if the applicant's financial and managerial resources could bear this additional risk and if other factors indicated that approval would be consistent with the public interest and the governing statute and regulations.

This proposed general statement of policy would apply primarily to proposed investments by U.S. banking organizations in the stock of foreign corporations in which they did not already have an equity investment. Applications involving an additional investment in an ongoing foreign joint venture would continue to be considered by the Board on the basis of outstanding facts and circumstances. The Board would in the case of any ongoing foreign joint venture consider carefully the amount of support, if any, that was being provided by the applicant to the venture and any agreement or arrangement among the joint venturers for the provision of any future support.

Pursuant to this proposal, Parts 211, 213, and 225 of Title 12 would be amended by adding the following new sections:

§ 211.52 Statement of Policy on Stock Interests in Foreign Joint Ventures.

In general, when a member bank or a corporation organized under section 25(a) of the Federal Reserve Act (an "Edge" corporation), or operating pursuant to an agreement with the Board under section 25 thereof (an "Agreement" corporation), or a bank holding company requests the Board's specific consent to acquire the stock or other certificates of ownership of a foreign corporation that will be jointly-owned by the U.S. banking organization and other foreign or domestic participants

(hereinafter referred to as a "foreign joint venture"<sup>1</sup>), the Board considers the degree of legal and practical business responsibility the U.S. banking organization will bear for the financial condition and operations of the foreign joint venture in foreign and international financial markets. In the Board's judgment, this factor is relevant in assessing what effects the proposed investment may have on the financial and managerial resources of the applying U.S. banking organization.

Based on the recent experience of certain foreign joint ventures in foreign and international financial markets, the Board has found that a U.S. banking organization may, in certain circumstances, feel impelled for business reasons to provide financial support<sup>2</sup> to a foreign joint venture in which it has an equity interest in the event the venture has liquidity or other financial needs. This support may be substantially in excess of the U.S. banking organization's original equity investment and may, in some situations, be well in excess of its *pro-rata* share. This has seemed most likely to occur in situations where (1) the foreign joint venture has included in its name a reference to the U.S. banking organization, (2) the U.S. banking organization or its affiliates has consistently provided financial support to the foreign corporation in amounts significantly beyond usual commercial limits or significantly disproportionate to its *pro-rata* stock interest, or (3) as the result of substantial managerial support furnished by the U.S. banking organization under a contract or other arrangement, the foreign corporation has been publicly identified as or considered to be, sometimes with the active encouragement of the U.S. banking organization, an integral part of the U.S. banking organization's international operations.

Accordingly, the Board, in considering applications by U.S. banking organizations to invest in foreign joint ventures, will, as a matter of policy, take into account the possibility that the applicant may feel impelled for business reasons to provide financial support for such foreign joint venture in the event the venture has liquidity or other financial needs, and that such support could be significantly greater than the amount of its proposed equity investment. The Board will therefore consider such application in light of the relative ability of the applicant to meet the demands that such potential support could place on its financial and managerial resources. In doing so, the Board will take into consideration the risks associated with the total assets and liabilities of the foreign joint venture and its projected expansion, and not merely the size of the proposed equity investment by the applicant. In particular, the Board will give great weight to these potential risks and their implications for the applicant in cases where the applicant proposes (1) to include a reference to its name in that of the foreign joint venture, (2) to provide general fund-

<sup>1</sup> The term "foreign joint venture" is used to describe a situation in which a U.S. banking organization with a minority share interest participates, directly or indirectly, in the overall management of the corporation and thus has an active operating interest. A purely passive minority investment in a foreign corporation will not be deemed a "joint venture" investment for purposes of this statement of policy. This "joint venture" determination will be made on the basis of the facts and circumstances of each case.

<sup>2</sup> As used herein, the term "support" includes, without limitation, contributions to capital, purchase (or causing the purchase) from the foreign corporation of loans or securities, making (or causing the making) of loans to the foreign corporation, and the making (or causing the making) of deposits in the foreign corporation.

ing support to the foreign joint venture in amounts disproportionate to its *pro-rata* stock interest, or (3) to provide virtually all of the management for such foreign joint venture.

If, however, in the case of any such proposed joint venture investment, the U.S. banking organization can establish on the record that it has reached an agreement or arrangement whereby its support of the proposed joint venture in the event of liquidity or other financial needs will be limited to its initial equity investment or to some fixed amount, or will be shared *pro-rata* or otherwise with the other shareholders, or will otherwise be limited, the Board will consider the application and the risks associated therewith on the basis of this additional information.

This statement of policy is not intended to prohibit or discourage investments by U.S. banking organizations in foreign joint ventures, which can be a useful form of corporate organization in appropriate circumstances; rather, due to the difficulty of ascertaining the precise risks undertaken in joint venture investments, its primary purpose is to clarify for all parties concerned the probable dimensions of risks assumed in any particular investment. Thus, even if an applicant proposes to assume a disproportionate share of the risks in any joint venture, e.g., agrees to stand behind more than its *pro-rata* share of the joint venture's obligations, the Board might be willing to approve the investment if the applicant's financial and managerial resources could bear this additional risk and if other factors indicated that approval would be consistent with the public interest and the governing statute and regulations.

The Board further notes that any action that it might take on an application should not be viewed or relied upon by the applying U.S. banking organization, other participants in the venture, or any third party as constituting approval or disapproval, or ratification or rejection of any agreement or arrangement that may have been entered into by the shareholders of a foreign joint venture; specifically, any Board action should not be viewed as constituting any expression of judgment as to the validity or enforceability of any such agreement or arrangement. Any agreement or arrangement will, rather, be merely one among many factors considered by the Board in deciding an application.

This statement is intended to apply primarily to proposed investments by U.S. banking organizations in the stock of foreign corporations in which they do not already have an equity investment. Applications involving an additional investment in an ongoing foreign joint venture will continue to be considered by the Board on the basis of outstanding facts and circumstances. The Board will, in the case of any ongoing foreign joint venture, consider carefully the amount of support, if any, that is being provided by the applicant to the venture and any agreement or arrangement among the joint venturers for the provision of any future support.

#### § 213.52 Statement of Policy on Stock Interests in Foreign Joint Ventures.

For text of interpretation, see § 211.52 of this chapter.

#### § 225.51 Statement of Policy on Stock Interests in Foreign Joint Ventures.

For text of interpretation, see § 211.52 of this chapter.

Since general statements of policy are exempt from the public notice provisions of the Administrative Pro-

cedure Act (5 U.S.C. § 553(b)), the Board usually does not provide opportunity for the submission of public comments on statements of policy adopted and published in the *Federal Register*. The Board, however, believes that interested persons should have an opportunity to comment on the proposed statement of policy concerning stock interests in foreign joint ventures because of its possible effects on proposed joint venture investments that currently may be being negotiated by U.S. banking organizations, and because of possible reactions to such a statement in foreign and international financial markets. In particular, the Board is interested in receiving comments on the appropriateness or effec-

tiveness of any such statement, and any effects it could have on the foreign commerce of the United States. Thus, to aid in the consideration of the proposed statement of policy on stock interests in foreign joint ventures, interested persons are requested 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 January 24, 1976. 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.