

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 8460 ]  
[ November 17, 1978 ]

INTERNATIONAL BANKING ACT OF 1978  
Change in Reserve Requirement Under Regulation K

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

Following is the text of a statement issued November 16 by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board today announced revisions of its Regulation K — concerning corporations engaged in foreign banking and financing — to conform to certain provisions of the new International Banking Act.

At the same time the Federal Deposit Insurance Corporation, the Comptroller of the Currency and the Federal Reserve Board issued a joint statement describing steps being taken by the three agencies to implement the Act.

The International Banking Act (IBA), signed into law September 17, 1978, for the first time makes the operations of foreign banks in the United States, through their branches, agencies and lending companies, subject to Federal law in a manner similar to domestic banks.

The Act assigns new responsibilities over the activities of foreign banks in the United States to the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Federal Reserve Board. The three agencies have formed an interagency task force to implement these responsibilities.

The Board announced that:

1. It is revising its Regulation K to remove the 10 per cent minimum reserve requirement that has applied to domestic deposits of Edge Act Corporations (U.S. corporations that banks may establish, under a provision of the Federal Reserve Act — Sec. 25(a) — to engage in foreign banking and finance). Edge Corporations will, instead, under the International Banking Act and Regulation K, be subject to the same reserve requirements on their domestic deposits as apply to member banks.

This amendment will be effective with the reserve computation period beginning November 16, 1978. The new level of required reserves must be maintained beginning with the week ending December 6, 1978.

2. The Board is advising the Reserve Banks to accept applications by foreign banks for the formation of Edge Corporations, and is revising the relevant application form (FR 151) to conform to provisions of the IBA (1) authorizing foreign banks, with the approval of the Board, to own a majority of the shares of an Edge Corporation, and (2) removing the requirement that only U.S. citizens may be directors of Edge Corporations.

The Act also authorizes the Board, after consultation with State bank supervisors, to impose reserve requirements and interest rate limitations on branches and agencies of large foreign banks. The Board expects to commence such consultations in the near future. Following these consultations, and prior to the imposition of any reserve requirements and interest rate limitations, proposed regulations will be published for comment.

Enclosed is a copy of the amendment, effective November 16, 1978, to Regulation K. Questions on this matter may be directed to our Foreign Banking Applications Department (Tel. No. 212-791-5878).

PAUL A. VOLCKER,  
*President.*



Board of Governors of the Federal Reserve System

**CORPORATIONS ENGAGED IN FOREIGN BANKING AND  
FINANCING UNDER THE FEDERAL RESERVE ACT**

**AMENDMENT TO REGULATION K**

*(effective November 16, 1978)*

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Final Rule.

**SUMMARY:** The recently enacted International Banking Act of 1978 removed the statutory requirement that corporations engaged in international banking and financial operations — so called “Edge Corporations” — maintain a minimum reserve of 10 per cent on their U.S. deposits. The Board’s regulation governing Edge Corporations imposes reserve requirements on the U.S. deposits of Edge Corporations subject to the former statutory 10 per cent minimum. This amendment removes the 10 per cent minimum reserve requirement in the Board’s regulation to conform to the International Banking Act. Edge Corporations will, however, continue to be subject to reserve requirements as if they were member banks of the Federal Reserve System.

**EFFECTIVE DATE:** November 16, 1978.

**FOR FURTHER INFORMATION CONTACT:** C. Keefe Hurley, Senior Attorney, Legal Division, Board of Governors of the Federal Reserve System.

**SUPPLEMENTARY INFORMATION:** Section 3(e) of the International Banking Act of 1978, (Pub. L. No. 95-369) amends the sixth paragraph of section 25(a) of the Federal Reserve Act (12 U.S.C. 615) by removing the minimum 10 per cent reserve requirement on the U.S. deposits of Edge Corporations. Sec-

tion 211.7(c), the Board’s Regulation K, (12 C.F.R. § 211.7(c)), imposes reserve requirements on Edge Corporations subject to a 10 per cent minimum. In view of the removal of the statutory 10 per cent minimum reserve requirement, the Board has eliminated the corresponding 10 per cent minimum reserve requirement in its regulation. This amendment will be effective with the computation period commencing November 16, 1978. Deposits of Edge Corporations would, however, continue to be subject to the reserve requirements contained in the Board’s Regulation D (12 C.F.R. §204). This action is taken pursuant to the Board’s authority under the fifth paragraph of section 25(a) of the Federal Reserve Act (12 U.S.C. 615) and section 13(a) of the International Banking Act of 1978 (Pub. L. No. 95-369).

The last sentence of section 211.7(c) of the Board’s Regulation K (12 C.F.R. §211.7(c)) is amended to read as follows:

**SECTION 211.7 — LIMITED OPERATIONS  
IN THE UNITED STATES**

\* \* \*

(c) . . . Such deposits shall be subject to Parts 204 (Regulation D) and 217 (Regulation Q) of this chapter and shall be reported in the same manner as if the Corporation were a member bank of the Federal Reserve System.

Board of Governors of the Federal Reserve System, November 16, 1978.

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For this Regulation to be complete, retain:

- 1) Regulation K, as amended effective January 7, 1969.
- 2) Amendment effective March 3, 1970.
- 3) This slip sheet.

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