

**FEDERAL RESERVE BANK  
OF NEW YORK**

Circular No. 8529  
March 2, 1979

**POLICY ON SUPERVISION OF  
FOREIGN BANK HOLDING COMPANIES**

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

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System regarding the supervision of foreign bank holding companies in the United States:

The Federal Reserve Board today [February 23] adopted a policy statement on its supervision of foreign bank holding companies in the United States and described the steps it is taking to carry out this policy.

The Board's statement said that the principle of national treatment should be the guiding rule in administering the Bank Holding Company Act and the International Banking Act of 1978 as they affect foreign banks. The statement describes the Board's policy as furthering two major goals:

- 1) that the U.S. subsidiary bank should be operated in a safe and prudent manner; and
- 2) that the parent bank holding company should be a source of strength to the U.S. bank.

The statement takes into consideration the fact that the Board's supervisory responsibilities apply to the parent bank holding company to the extent that the condition of the parent affects the safety and soundness of the U.S. subsidiary bank. The statement said that: "It is the general policy of the Board not to extend U.S. banking supervisory standards extra-territorially to foreign bank holding companies."

Foreign organizations that seek to acquire U.S. banks must obtain the prior approval of the Board. The policy statement said that whenever a foreign bank applies to acquire a U.S. bank, the Board will, "seek to assure itself of the foreign bank's ability to be a source of financial strength and support to the U.S. subsidiary bank."

Once a foreign bank holding company has been established, Board supervisory procedures will be primarily directed at promoting the safety and soundness of the subsidiary U.S. bank.

In this regard, the Board announced several initiatives that are underway to implement this policy. These initiatives include:

- Increasing examiner surveillance of intercompany transactions and common customer credits.
- Requiring additional financial information at the time of the application.
- Soliciting the views of foreign bank regulatory authorities with regard to foreign banks subject to their jurisdiction.
- Improvement of ongoing financial information on foreign bank holding companies.
- Institution of quarterly report on the transactions between the U.S. subsidiary bank and its foreign parent.
- Proposing to amend Regulation Y to ensure that only foreign companies that are principally engaged in banking abroad qualify for exemption from the nonbanking prohibition of the Bank Holding Company Act.

(Over)



Although the policy statement applies directly to foreign bank holding companies and their U.S. bank subsidiaries, the Board has ordered a review of supervisory policy with respect to the branches, agencies, and commercial lending companies of foreign banks in the United States in light of the Board's expanded supervisory responsibilities under the International Banking Act of 1978.

Enclosed for member banks, bank holding companies, and foreign banking institutions is a copy of the policy statement. Any questions regarding this matter may be directed to our Domestic Banking Applications Department (Tel. No. 212-791-5861).

PAUL A. VOLCKER,  
*President.*



February 23, 1979

Statement of Policy on Supervision and Regulation  
of Foreign Bank Holding Companies

The Board of Governors has a number of supervisory responsibilities over the operations of foreign banking organizations in the United States under the Bank Holding Company Act and, more recently, under the International Banking Act of 1978. During the past year the Board has undertaken a major review of its supervisory and regulatory policies toward foreign bank holding companies. Major elements underlying that review were the growth in number and total assets of U.S. banks owned by foreign banks and other foreign companies and the experience gained in regulating foreign bank holding companies since the 1970 Amendments to the Bank Holding Company Act. In the course of the review, the International Banking Act of 1978 was passed thereby broadening the Board's supervisory responsibilities over the U.S. operations of foreign banks and establishing certain legislative policies over their operations in this country. In order to inform the public and the banking industry, the Board is issuing this statement setting forth its policy toward regulating foreign bank holding companies in the United States and describing initiatives that are underway in order to implement this policy more effectively.

Bank supervision in the United States has as a principal objective the promotion of the safety and soundness of banking institutions as going concerns serving depository and credit needs of their communities and the economy as a whole. To this end, a number of standards have been established governing domestic entry into the banking business and ongoing supervision of banking operations of domestic banks and bank holding companies.

In urging legislation to provide for Federal regulation of foreign banks in the United States, the Board endorsed the principle of national



treatment, or nondiscrimination, as a basis for the rules governing the entry and subsequent operations of foreign banks in this country. The International Banking Act of 1978 generally incorporates that principle in its provisions.

The Board continues to believe that the principle of national treatment should be the guiding rule in administering the Bank Holding Company Act and the International Banking Act of 1978 as they affect foreign banks. Following this rule, the Board believes that in general foreign banks seeking to establish banks or other banking operations in the United States should meet the same general standards of strength, experience and reputation as required for domestic organizers of banks and bank holding companies. The Board also believes that foreign banks should meet on a continuing basis these standards of safety and soundness if they are to be a source of strength to their U.S. banking operations.

At the same time, the Board is cognizant that foreign banks operate outside the United States in accordance with different banking practices and traditions and in different legal and social environments. The Board also recognizes that its supervisory responsibilities are for the safety and soundness of U.S. banking operations. Its supervisory concerns for the operations and activities of foreign banks outside the United States are, therefore, limited to their possible effects on the ability of those banks to support their operations inside the United States. As embodied in both the Bank Holding Company Act and the International Banking Act of 1978, it is the general policy of the Board not to extend U.S. bank supervisory standards extra-territorially to foreign bank holding companies. The Board will give due regard to these factors in applying the principle of national treatment.



The Board has jurisdiction over foreign entry in the case of foreign organizations seeking to acquire U.S. banks. Whenever a foreign bank applies to become a bank holding company, the Board will seek to assure itself of the foreign bank's ability to be a source of financial and managerial strength and support to the U.S. subsidiary bank. In reaching this judgment, the Board will analyze the financial condition of the foreign organization, evaluate the record and integrity of management, assess the role and standing of the bank in its home country, and request the views of the bank regulatory authorities in the home country. In connection with its financial analysis, the Board will require sufficient information to permit an assessment of the financial strength and operating performance of the foreign organization. Information will consist of reports prepared in accordance with local practices together with an explanation and reconciliation of major differences between local accounting standards and U.S. generally accepted accounting procedures including full information on earnings, capital, charge-offs, and reserves. The Board will also continue to work with bank supervisory authorities of other major countries to improve overall cooperation in international bank regulation.

Since the Board believes that foreign bank holding companies should be strong reputable organizations with banking experience, the Board is considering an amendment to tighten the definition by which a foreign company can qualify under Section 4(c)(9) of the Bank Holding Company Act for exemption from the prohibitions on ownership of nonbanking companies. For the purposes of Section 4(c)(9), Section 225.4(g) of Regulation Y defines a foreign bank holding company as a company chartered abroad "more than half of whose consolidated assets are located, or consolidated revenues derived, outside of the United States."



The Board will propose for public comment a change in that regulation which would require the company to be primarily engaged in banking abroad. This would essentially reserve Section 4(c)(9) for foreign organizations that were principally banks or banking institutions. As a result, both the foreign and domestic operations of foreign nonbank companies acquiring U.S. banks would either have to be divested or meet the more restrictive tests for exemption under Section 4(c)(8) or Section 4(c)(13) of the Act.

In connection with the Board's overall review of its regulations and the implementation of the International Banking Act, a general revision of the regulation governing Section 4(c)(9) will also be proposed later in 1979.

Once a foreign bank holding company has been established, Board supervisory procedures will be primarily directed at promoting the safety and soundness of the subsidiary U.S. banks. Examinations carried out by the relevant Federal and/or State supervisory authority will continue to be the primary instrument for this purpose. Special attention will be given to transactions and correspondence between the U.S. subsidiary bank and its foreign parent and to monitoring credits by the U.S. bank to parties that are also customers of the parent. In particular, Federal bank supervisors will expect the U.S. bank to maintain sufficient information on all borrowers to permit both the U.S. bank and bank examiners to make an independent appraisal of the bank's credits.

In addition to the examination process, the Board will require foreign bank holding companies to report quarterly on transactions between the U.S. subsidiary bank and its foreign parent. This reporting system is currently under development and will be implemented in the near future. The report will be similar to one currently required from domestic bank holding companies but



will be designed to take into account the particular nature of the U.S. operations of foreign banks.

The Board will also require submission of sufficient financial information to enable it to assess the operations and general condition of the parent institution. To this end, the Board is in the process of amending its Annual Report for Foreign Bank Holding Companies (F.R. Y-7) to require more financial information on the foreign parent. In particular, full information on earnings, reserves and capital will be required along with an explanation of major material differences between U.S. and foreign accounting practices. In its use and handling of the information, the Board will take into account the fact that much of the information required may be confidential commercial information that is not generally disclosed.

This statement of policy applies to foreign bank holding companies and their U.S. bank subsidiaries. However, the Board has directed its staff to review supervisory policy with respect to the branches, agencies, and commercial lending companies of foreign banks in the United States in light of the Board's expanded supervisory responsibilities under the International Banking Act of 1978. At the conclusion of this review, the Board will issue a statement addressing the supervision of these offices.