

FEDERAL RESERVE BANK
OF NEW YORK

AT CIR No 8388(a)
June 15, 1979

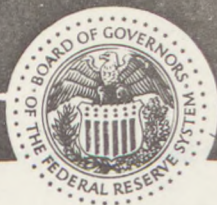
Adoption of New Regulation K

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

Enclosed is a copy of a press release issued yesterday by the Board of Governors of the Federal Reserve System. It announces the adoption of a revised Regulation K, entitled "International Banking Operations," effective June 14, 1979.

The full text of the new regulation will be sent to you shortly.

PAUL A. VOLCKER,
President.



FEDERAL RESERVE

press release

B319

For immediate release

June 14, 1979

The Federal Reserve Board has revised its Regulation K -- governing corporations engaged in international banking and financial operations, known as Edge Corporations -- to conform with the International Banking Act of 1978.

At the same time, the Board revised and consolidated into the new Regulation K provisions of other regulations dealing with foreign operations of U.S. banks (Regulation M) and foreign investments by bank holding companies (Regulation Y). New Regulation K also incorporates a number of Board policy positions in the field of international banking that have previously been developed on a less formal basis.

As now constituted Regulation K, titled International Banking Operations, includes rules for (1) the ownership of Edge Corporations and their operation in the United States (2) overseas activities and investments of Edge Corporations, member banks and bank holding companies (3) lending limits and capital requirements for Edge Corporations and other regulatory restrictions on international operations and (4) authorization for the establishment and operation of foreign branches of member banks.

The new Regulation -- which is effective June 14, 1979 -- thus brings together in one place the Board's rules regarding the international activities of United States banks, bank holding companies and Edge Corporations.

In making these changes, the Board noted:

In amending the Edge Act (Section 25(a) of the Federal Reserve Act) Congress declared that Edge Corporations are to have powers sufficiently broad to enable them to compete with foreign banks in the United States as well as abroad and to provide all segments of the United States economy a means of financing international trade, and, in particular, exports. In addition, Edge Corporations are to serve as a means of fostering the participation of regional and smaller banks in international banking and financing and, in general, to stimulate competition in making those services available throughout the United States...

RECEIVED

JUN 15 1979

P. A. V.

ANSWERED.....

ATTENDED TO.....

The Regulation has been issued in furtherance of these and other objectives set forth in the International Banking Act (IBA) after consideration of comment received following publication by the Board of proposals for the new Regulation in February. In addition, the Board has sought to eliminate obsolete regulations, clarify existing rules, and simplify relevant regulatory and supervisory standards and procedures.

The rules adopted in new Regulation K differ in a number of respects from proposals published in February. The principal provisions of Regulation K are:

1. Operation of Edge Corporations in the United States:

Regulation K as revised enlarges the capabilities of Edge Corporations to operate in the United States by permitting them to establish branches in the U.S. with the prior approval of the Board. Until now, a U.S. banking company could establish separately incorporated Edge Corporations at various places, but Edge Corporations were not permitted to branch. The new authority makes it more efficient and less costly for Edge Corporations to enter and operate at new locations. Edge Corporations are not subject to Federal law that limits the power of banks to branch across State lines.

The Board set forth the following standards that it will consider in acting upon applications to form new Edge Corporations or to establish domestic branches:

- The financial condition and history of the applicant;
- The general character of the applicant's management;
- The convenience and needs of the community to be served with respect to international banking and financing services;
- The effects of the proposed Corporation or branch on competition.

The Board will publish in the Federal Register notice of proposals to form new Edge Corporations or establish domestic branches in order to give opportunity for interested persons to express their views.

The Board deferred action on another proposal to enlarge the capabilities of Edge Corporations that would have given them authority to provide full banking services to customers principally engaged in international or foreign commerce. The Board will give further study to this matter and will publish a revised version for further comment.

Edge Corporations may use funds held in the United States but not employed in international or foreign business in the form of cash, deposits with banks, money market instruments such as bankers' acceptances, obligations of Federal, State or local governments or obligations fully guaranteed by them (and their instrumentalities), repurchase agreements, Federal funds sold and commercial paper.

The Board included in Regulation K a statement of activities that Edge Corporations may conduct in the United States incidental to international transactions.

The revised Regulation allows Edge Corporations to finance the production of goods and services for export. This may be done when the customer has obtained export orders, or when the items to be financed are identifiable as being directly for export.

2. Foreign Investments by Edge Corporations, Banks and Bank Holding Companies:

The new Regulation contains a list of activities that may generally be engaged in by foreign companies in which U.S. banking organizations hold a substantial ownership interest ((Section 211.5(d)). The activities specified in the Regulation are those the Board has generally allowed foreign subsidiaries of United States banks because they are of a financial character or are related to international banking and financial operations. For example, U.S. banking organizations may engage in nonbanking activities abroad that the Board has authorized under Section 4(c)(8) of the Bank Holding Company Act.

Regulation K establishes uniform and simplified procedures for foreign or international investments by Edge Corporations and member banks and bank holding companies. The Regulation establishes expedited procedures, under general consent provisions, for investments up to \$2 million for subsidiaries or joint ventures engaged in activities permissible under the Regulation. Such investments in foreign companies may be made without specific consent by the Board.

Other investments in subsidiaries and joint ventures that do not qualify under the general consent procedures but that do not exceed 10 per cent of capital and surplus of the investor may be made after 60 days' notification to the Board.

All other investments must obtain the Board's prior approval.

3. Foreign Branches of Edge Corporations:

An Edge Corporation may establish branches abroad, under revised Regulation K, according to the provisions of the Regulation (Section 211.3) by which member banks may establish foreign branches.

4. Foreign Investment in Edge Corporations:

The International Banking Act ((Section 3(f)) specifies that certain foreign or domestic financial institutions may apply to the Board for prior approval to acquire 50 per cent or more of the capital stock of an Edge Corporation. In acting upon applications to acquire stock of Edge Corporations made by institutions that are not subject to the IBA or the Bank Holding Company Act the Board will impose conditions it regards as necessary to prevent undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices in the United States. A foreign financial institution may not invest more than 10 per cent of the institution's capital and surplus in an Edge Corporation.

4. Lending Limits and Capital Requirements for Edge Corporations:

The Board established prudential rules for Edge Corporations that accept deposits in the United States, including the following:

- (1) Risk assets of an Edge Corporation engaged in banking may not exceed 7 per cent of capital and surplus. In general, a Edge Corporation's capital should be adequate in relation to the scope and character of its activities.
- (2) Extensions of credit to one person by Edge Corporations engaged in banking may not exceed 10 per cent of the Corporation's capital and surplus.
- (3) Extensions of credit to one person by a member bank and by its Edge Corporation and foreign direct and indirect subsidiaries may not exceed the member bank's lending limit.
- (4) Underwriting commitments shall be deemed extensions of credit for purposes of applying the lending limits. Underwritings of equities by subsidiaries may not represent more than 20 per cent of an issuer's equity or amount to more than \$2,000,000.

5. Deposits in Edge Corporations:

The deposits of an Edge Corporation in the United States and abroad are subject to reserve requirements and interest rate ceilings as though they were member banks.

Edge Corporations may receive in the United States demand, time and savings deposits from foreign governments and their agents or instrumentalities, and from persons conducting business principally at their offices abroad and from individuals residing abroad.

Deposits of the same types may be received in the United States from other sources if the deposits are to be used for purposes specified in the Regulation ((Section 211.4(e)(2)).

6. Supervision of Edge Corporations:

Edge Corporations will be examined once yearly by Federal Reserve examiners. Organizations subject to the Regulation are required to supervise and administer their foreign branches and subsidiaries so as to ensure that their activities conform to high standards of banking and financial prudence. When investing in joint ventures investors must keep themselves informed of the activities and condition of the joint venture, and must maintain files of complete information on all transactions available to examiners. An Edge Corporation must make at least two reports of its financial condition to the Board yearly, at times and in the form prescribed by the Board. The Board may require that reports of condition or other reports be published or made available for public inspection.

7. Foreign Branches of Member Banks:

New Regulation K simplifies the regulatory approval process for the establishment of foreign branches by member banks. A member bank that has established branches in two or more foreign countries may establish branches in additional countries after 60 days' notice to the Board. Additional branches in the same country may be established without prior notification to the Board. The Board transferred to Regulation K provisions of Regulation M concerning the activities of foreign branches of member banks, with minor changes.

8. Transition Rules:

Transactions that have been consummated or activities engaged in pursuant to the Board's general or specific consent prior to June 8, 1979 may be retained or continued. Extensions of credit that exceed limitations set forth in the Regulation may remain outstanding until they mature. Investors that do not meet the requirements of the Regulation on June 14, 1979 (Section 211.6(c) and 211.5(b)(iii) respectively) must conform their accounts and investments by June 14, 1981.

The Board has considered the question of Federal Reserve membership for Edge Corporations and is sending to the Congress the Board's views on this matter. The Board deferred action on the question of the appropriateness of foreign subsidiaries of U.S. banking organizations lending to U.S. residents for domestic purposes, and will consider this matter separately.

#