

**FEDERAL RESERVE BANK
OF NEW YORK**

Circular No. 8609
July 24, 1979

**Statement of Policy on Supervision of U.S. Branches
and Agencies of Foreign Banks**

*To U.S. Branches and Agencies of Foreign Banks,
and Others Concerned, in the Second Federal Reserve District:*

Following is the text of a statement issued on July 20, 1979 by the Federal Financial Institutions Examination Council, which is composed of representatives from the Board of Governors of the Federal Reserve System, in addition to representatives from the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration:

The Federal Financial Institutions Examination Council today announced the adoption of the attached policy statement on the supervision of U.S. branches and agencies of foreign banks. That policy statement was in response to the expansion of the Federal bank regulatory agencies' authority and responsibility with regard to such operations under the International Banking Act (IBA).

In addition to outlining the responsibilities of the various regulators, the statement announces the agencies' intention of requiring reports from foreign banks' U.S. operations and from foreign parent institutions.

The policy statement was prepared by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Board to inform the public and the banking industry of the agencies' supervisory policy toward foreign banks' U.S. branches, agencies and commercial lending companies.

The policy statement referred to in the above notice is enclosed. Two copies of the statement have been enclosed for those U.S. branches and agencies of foreign banks, and commercial lending company subsidiaries of foreign banks, that are located in the Second Federal Reserve District so that those institutions can forward a copy to their main offices overseas.

Additional copies of the enclosure will be furnished upon request. Questions regarding this matter may be directed to our Foreign Banking Applications Department (Tel. No. 212-791-5881 or 5878).

PAUL A. VOLCKER,
President.

STATEMENT OF POLICY ON SUPERVISION OF U.S. BRANCHES
AND AGENCIES OF FOREIGN BANKS

The recently enacted International Banking Act of 1978 (IBA) gives the three Federal bank regulatory agencies expanded supervisory authority and responsibility with respect to the operations of foreign banks' U.S. branches, agencies, and commercial lending companies.^{1/} It provides for the establishment of Federal branches and agencies by the Office of the Comptroller of the Currency and permits U.S. branches to apply for insurance coverage by the Federal Deposit Insurance Corporation (FDIC). It also subjects these U.S. offices to many provisions of the Federal Reserve and Bank Holding Company Acts.

In order to insure adequate supervision of these offices within the present Federal-State regulatory framework, the IBA provides that the Comptroller, the FDIC, and the various State authorities will have primary examining authority over the offices within their jurisdictions. Additionally, the Act gives the Federal Reserve Board residual examining authority over all U.S. banking operations of foreign banks, similar to its existing authority over U.S. subsidiary banks of bank holding companies. This distribution of responsibilities calls for close coordination of the efforts of the relevant authorities. Accordingly, the Comptroller, the FDIC, and the Board, in coordination with the Federal Financial Institutions Examination Council (FFIEC), are issuing this joint statement to inform the public and the banking industry of their supervisory policy toward these U.S. offices.

The agencies' supervisory interests in the operations of U.S. branches and agencies of foreign banks are directed to the safety and soundness of those operations in serving the needs of borrowers and depositors and other creditors in the United States. For this reason, the regulatory agencies will place primary emphasis on assessing the financial well-being of the U.S. offices. They will also be concerned with adherence to U.S. law and regulation by these offices.

At the same time, the agencies recognize that, even more than in the case of U.S. bank subsidiaries of foreign banks, the strength of these branches and agencies devolves from their head offices and organizations outside the United States and that ultimate responsibility for branch and agency activities resides in head offices overseas. Consequently, the agencies will seek to assure themselves that the parent institutions

^{1/} The term "commercial lending companies" is intended to refer to investment companies organized under Article XII of the New York State Banking Law, and any similar corporations that may be organized under the laws of other States.

are financially sound. To this end, they plan to collect information on the consolidated operations of the foreign banks, as described below, and to expand their contacts with senior managements of the banks. Additionally, United States authorities are now working and will continue to work with bank supervisory authorities of other nations to improve both the coordinated exchange of banking information and the compatibility of international banking regulation.

The IBA mandated that the Federal regulatory agencies cooperate closely with State banking authorities in examining U.S. offices of foreign banks. In furtherance of this mandate, a uniform approach to examining these offices is being developed through the FFIEC in order to minimize dual examinations and to facilitate joint Federal-State examinations, when desirable. In exercising their responsibilities, the agencies will ensure that each U.S. office of a foreign bank is examined regularly by either State or Federal authorities.

The Federal regulatory agencies through the FFIEC, in consultation with the relevant State authorities, are also developing joint financial reporting requirements for these U.S. offices. The information required will be similar to that required of U.S. banks while taking into account their different organizational structure.

To gain information on the consolidated bank, the agencies will also develop new reporting requirements for the foreign parent institutions. These information requirements will be similar to those for foreign bank holding companies, including specific information on earnings, reserves, and capital, and an explanation for material differences between U.S. and foreign accounting practices. In the use and handling of this information, the agencies will take into account the fact that some of the information required may be confidential commercial information that is not generally disclosed. These new reporting requirements for both the U.S. offices and the foreign banks are planned to be implemented early in 1980, with some possibly in effect for the reporting period ending December 31, 1979. Detailed requirements and instructions will be issued prior to implementation.