

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8780]
March 27, 1980

REGULATIONS IMPLEMENTING INTERNATIONAL BANKING ACT OF 1978

—Reserve Requirements; Interest Rate Ceilings; Access to Services

—Effective September 4, 1980

To All Member Banks, U.S. Branches and Agencies of Foreign Banks, Edge and Agreement Corporations, and Others Concerned, in the Second Federal Reserve District:

The Board of Governors of the Federal Reserve System has adopted changes in its regulations that will implement, effective September 4, 1980, provisions of the International Banking Act of 1978 (IBA).

The following is quoted from the Board's statement announcing the changes:

Pursuant to the Act the Board's regulations placed reserve requirements and interest rate limitations on U.S. branches and agencies of foreign banks whose parent banks have total worldwide consolidated bank assets in excess of \$1 billion.

At the same time, the Board implemented provisions of the IBA that grant branches and agencies of such foreign banks access to Federal Reserve services, and permit them to borrow from the Federal Reserve Banks.

The regulations will become effective on September 4, 1980, with a two-year phase-in period after the effective date for reserve requirements. This is consistent with the reserve requirement phase-in for nonmember banks joining the Federal Reserve System. The final regulations follow consideration of comment received on proposed regulations published in July 1979.

The rules affecting reserve requirements for branches and agencies of foreign banks amend the Board's Regulation D (Reserves of Member Banks). The provisions imposing interest rate ceilings amend Regulation Q (Interest on Deposits). The Board also amended Regulation D and Regulation K (International Banking Operations) to conform in certain respects the reserve requirements of Edge and Agreement Corporations to those applicable to the branches and agencies of foreign banks.

In general, but with numerous special provisions, the Board's regulations:

1. Apply all the provisions of Regulation D to U.S. branches and agencies of foreign banks.
2. Treat credit balances at banking offices of foreign banks as deposits subject to the same interest rate limitations and to the same reserve requirements as apply to member banks, with the applicable reserve ratio determined by the maturity of the balance.
3. Subject net borrowings of the agencies and branches from their foreign bank and its foreign offices to the same reserve ratios that apply to similar Eurodollar borrowings of member banks, after deducting a capital equivalency allowance.
4. Establish a system of statewide aggregation of reservable liabilities for purposes of computing reserve requirements. This differs from the proposed rule, which would have included an additional tier of national aggregation.
5. Permit a branch or agency maintaining a required reserve balance with a Reserve Bank to be eligible to borrow at the discount window of that Bank.
6. Make Federal Reserve services (including check collection, currency and coin supply, securities safekeeping and wire transfer services) available to the branches and agencies on the effective date of the final regulations, through the Reserve Bank for the District in which the foreign branch or agency is located.
7. Apply all the provisions of Regulation Q to the branches and agencies.

Enclosed—for member banks, branches and agencies of foreign banks, and Edge and Agreement Corporations in this District—is the text of the regulatory provisions. It will be published in

(OVER)

TITLE 12 -- BANKS AND BANKING

CHAPTER II -- FEDERAL RESERVE SYSTEM

SUBCHAPTER A -- BOARD OF GOVERNORS OF THE FEDERAL
RESERVE SYSTEM

[Regulations A, D, K, and Q]

(Docket No. R-0238)

Part 201 -- Extensions of Credit by Federal Reserve Banks

Part 204 -- Reserves of Member Banks

Part 211 -- International Banking Operations

Part 217 -- Interest on Deposits

Reserve Requirements, Interest Rate Limitations on Deposits,
and Advances of Federal Reserve Credit
for U. S. Branches and Agencies of
Foreign Banks; Reserve Requirements of Edge Corporations

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rules.

SUMMARY: Section 7 of the International Banking Act of 1978 ("IBA") (12 U.S.C. § 3105) imposes Federal reserve requirements and deposit interest rate limitations on Federal branches and agencies of parent foreign banks with total worldwide consolidated bank assets in excess of \$1 billion and authorizes the Board to impose such requirements on State branches and agencies of parent foreign banks with total worldwide consolidated bank assets in excess of \$1 billion. In order to implement the provisions of the IBA, the Board of Governors has amended Regulation D (Reserves of Member Banks) and Regulation Q (Interest on Deposits) to apply Federal reserve requirements and interest rate limitations currently applicable to member banks to such branches and agencies. Modifications to these regulations have been made to reflect certain operational and structural differences between branches and agencies and member banks. Reserve requirements will be phased-in for branches and agencies over a two-year period. Reserve requirements will be computed by aggregating the deposits of a foreign bank's branches and agencies operating in the same State. However, deposits of branches and agencies located in the same State but in different Federal Reserve Districts will not be aggregated. Regulation Q is being applied to Federal branches and agencies and State uninsured branches and agencies of foreign parent banks with total worldwide consolidated bank assets in excess of \$1 billion. Under section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. § 1828(g)), all insured State branches and those insured Federal branches whose parents do not have total worldwide consolidated bank assets in excess of \$1 billion will be subject to deposit interest rate limitations (12 CFR Part 329).

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In addition, the IBA authorizes the Federal Reserve Banks to provide access to Federal Reserve credit, clearing, and settlement facilities to branches and agencies to the same extent as to member banks, subject to limitations, restrictions or regulations promulgated by the Board. Under the Board's action, branches and agencies subject to reserve requirements will be granted access to Federal Reserve services and credit in each Federal Reserve District in which they operate. Regulation A (Extensions of Credit by Federal Reserve Banks) has been amended to facilitate branch and agency borrowing from the Federal Reserve discount window.

The Board also has determined to apply to offices of Edge Corporations the same general rules with respect to maintenance of reserves, aggregation of deposits, and access to Federal Reserve services that are applicable to branches and agencies.

The Board believes that its actions to implement the provisions of the IBA will facilitate the conduct of monetary policy and will promote vigorous and fair competition between branches and agencies and domestic depository institutions to the fullest extent possible.

EFFECTIVE DATE: September 4, 1980. On that date, branch and agency reserve requirements will commence based upon deposits held during the seven-day computation period ending on Wednesday, August 27, 1980.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202/452-3625), Paul S. Pilecki, Attorney (202/452-3281), James S. Keller, Attorney (202/452-3582), or Sydney J. Key, Economist (202/452-3697), Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

SUPPLEMENTARY INFORMATION: On July 23, 1979, the Board requested public comment (44 Fed. Reg. 44876) on a proposal to apply Federal reserve requirements and deposit interest rate limitations to U. S. branches and agencies of foreign banks ("branches and agencies") with total worldwide consolidated bank assets in excess of \$1 billion pursuant to section 7(a) of the International Banking Act of 1978 ("IBA") (12 U.S.C. § 3105). The IBA imposes Federal reserve requirements and deposit interest rate limitations on Federal branches and agencies of such foreign banks. The IBA authorizes the Board, after consultation and in cooperation with State bank supervisory authorities, to apply the reserve requirements and deposit interest rate limitations made applicable to Federal branches and agencies to State branches or agencies of such foreign banks.^{1/} The period for public comment expired on November 23, 1979.

^{1/} Federal Reserve staff undertook extensive consultations with each of the State bank supervisory authorities that have responsibility for State branches or agencies of foreign banks. On March 16, 1979, the Board submitted a report to Congress, as required by the IBA, concerning the steps taken to consult with State bank supervisory authorities. Additional consultations with State supervisory authorities on the Board's proposal have taken place. A copy of the report is available from the Board's Office of Public Affairs (202/452-3215).

After consideration of more than 40 comments received from the public (primarily from foreign banking institutions), the Board has adopted the proposal substantially as published, but with certain modifications as discussed below.

The primary objectives of the IBA are to facilitate the implementation of monetary policy and to promote competitive equality among depository institutions. To further these purposes, the Board of Governors has amended its regulations concerning extensions of credit by Reserve Banks (Regulation A; 12 CFR Part 201), reserves of member banks (Regulation D; 12 CFR Part 204), and interest on deposits (Regulation Q; 12 CFR Part 217) to apply these provisions to U. S. branches and agencies of foreign banks. The Board also has determined the manner in which branches and agencies may have access to Federal Reserve services.

Application of Regulation D

The scope of the activities and the balance sheet structure of branches and agencies suggest that they compete primarily with domestic money center banks, most of which are members of the Federal Reserve System. In order to facilitate the implementation of monetary policy and to promote competitive equality, the Board, after consideration of the character of business conducted by branches and agencies, has determined to apply the provisions of Regulation D (12 CFR Part 204) to branches and agencies, effective September 4, 1980, so that they generally will be computing and maintaining reserves in the same manner as member banks.^{2/} Regulation D has been modified to reflect certain operational and structural differences between member banks and branches and agencies.

Under Regulation D, required reserves are computed on the basis of daily average net deposit balances during a seven-day period ending each Wednesday (the "computation period"). Required reserves are satisfied by the maintenance of balances at a Federal Reserve Bank during the seven-day period that begins the second Thursday following the end of the computation period (the "maintenance period") and by the average daily U. S. currency and coin held during the computation period. Current Federal reserve requirement ratios are listed in Table 1.

^{2/} The Board has been advised by its Legal Division that, in its view, Federal reserve requirements imposed on branches and agencies under section 7 of the IBA (12 U.S.C. § 3105) preempt reserve requirements imposed on these institutions pursuant to State law.

Table 1
Federal Reserve Requirement Ratios

Type of deposit and deposit interval in millions of dollars	Ratios (per cent) in effect March 1, 1980
<u>Net demand</u>	
\$0-2	7
Over \$2-10	9-1/2
Over \$10-100	11-3/4
Over \$100-400	12-3/4
Over \$400	16-1/4
<u>Savings</u>	
	3
<u>Time*-By initial maturity</u>	
30- 179 days	
- \$0-5	3
- over \$5	6
180 days to 4 years	2-1/2
4 years or more	1
<u>Marginal reserve requirement</u> (on managed liabilities in excess of the institution's managed liabilities base)	
	8

* A supplementary reserve requirement of 2 per cent is applied to time deposits of \$100,000 or more.

Aggregation for Reserve Requirement Calculation. The Board has determined to adopt a procedure of statewide aggregation for purposes of calculating reserve requirements for branches and agencies. Under this procedure, reserve requirements will be computed by aggregating the deposits of a foreign bank's branches and agencies operating in the same State. However, deposits of branches and agencies located in the same State but in different Federal Reserve Districts will not be aggregated. This represents a simplification of the Board's July 23 proposal, which contemplated that deposits at all branches and agencies of a foreign bank and of its foreign subsidiary banks would be aggregated nationally for purposes of calculating reserve requirements. The Board's determination to adopt a system of statewide aggregation is based principally on comments received indicating that national aggregation for calculating reserves would be complex and costly and on estimates suggesting that it would have had very little effect on the reserves required of branches and agencies.

Under Regulation D, as amended, a foreign bank's branches and agencies operating in the same State will submit an aggregated report of deposits to, and maintain reserves with, the Federal Reserve Bank in whose District they operate. However, a foreign bank's branches and agencies operating in the same State but in different Federal Reserve Districts will report deposits and maintain reserves separately with their respective Reserve Banks. For example, if a foreign bank has a branch in Philadelphia and a branch in Pittsburgh, the former would submit reports to, and maintain reserves with, the Federal Reserve Bank of Philadelphia. Pittsburgh, however, is located in the Cleveland Federal Reserve District, and a branch located in that city would report deposits to, and maintain reserves with, the Pittsburgh Branch of the Federal Reserve Bank of Cleveland.

Under the Board's action, in reporting deposits for purposes of calculating reserve requirements, U. S. branches and agencies will exclude transactions with other U. S. branches and agencies of the same foreign bank. In other words, balances due to U. S. branches and agencies, wherever located, of the same foreign bank will not be treated as deposits due to banks, and balances due from U. S. branches and agencies, wherever located, of the same foreign bank will not be deductible from gross demand deposits as balances due from other banks.

The Board's action with regard to basic reserve requirements for branches and agencies does not affect procedures currently in place for the marginal reserve requirement program imposed on October 6, 1979 (12 CFR 204.5(f)(2); 44 Fed. Reg. 60071), which is intended as a temporary measure. Under that program, all reports on total managed liabilities of U.S. branches and agencies of the same "family" must be filed on a nationally consolidated basis by one office (the reporting office) at the Federal Reserve Bank of the District in which that office is located. The reporting office also is required to maintain the marginal reserves of the "family" in a reserve account at the Reserve Bank to which it reports. Under the marginal reserve program, "family" will continue to refer to the U. S. branches and agencies of a foreign bank and of its majority-owned foreign banking subsidiaries.

Credit Balances

Most States that permit the establishment of agencies provide that credit balances may be maintained for agency customers only in connection with the exercise of other lawful banking powers. Commentators stated that credit balances should not be reservable, since they do not serve the same purposes as deposits and they may not be used for ordinary transactions purposes. Credit balances arise primarily from crediting proceeds of loans extended by the agencies, from collections of foreign trade related paper, and from compensating balance requirements for agency services. There are, however, close parallels between credit balances at agencies and deposits at Edge Corporations, which

are subject by statute to member bank reserve requirements and interest rate limitations. Moreover, if credit balances were maintained at a member bank, they would be regarded as reservable deposits.

The Board has determined that credit balances at agencies should be regarded as "deposits" for purposes of interest rate limitations and reserve requirements. The maturity of credit balances will determine the applicable reserve ratios and interest rate limitations, consistent with the treatment of deposits at member banks and Edge Corporations. Credit balances with a minimum maturity of 30 days or more, as specified in the agency's agreement with its customer, will be subject to time deposit reserve ratios and to the applicable time deposit interest rate ceilings under Regulation Q. Credit balances with shorter maturities will be treated as demand deposits, and the prohibition against payment of interest on demand deposits will be applied to such funds.

Officers' Checks

The Board believes that it is appropriate to treat officers' checks issued by or drawn by branches and agencies as demand deposits, since officers' checks of member banks are regarded as demand deposits. Accordingly, the Board has amended section 204.1(g) of Regulation D (12 CFR 204.1(g)) to treat officers' checks issued by a branch or agency, including those drawn as agent for its foreign bank (including its foreign offices), as demand deposits for reserve requirement purposes. Branches and agencies will be required to conform their accounting practices with respect to officers' checks to those required of member banks under Regulation D.

Eurodollar Borrowings

Since 1969, deposits in the form of borrowings by domestic offices of member banks from foreign banks, foreign national governments, certain international organizations, and the bank's own foreign branches have been subject to Eurodollar reserve requirements. (See § 204.5(c) and (d) of Regulation D (12 CFR 204.5(c) and (d).) The applicable basic Eurodollar reserve ratio has been as high as 20 per cent, but has been zero since August 24, 1978. (Eurodollar borrowings have been subject to marginal reserve requirements since October 6, 1979.) To provide treatment comparable to that of member banks, Eurodollar borrowings of branches and agencies will be subject to the same reserve ratios that apply to Eurodollar borrowings of member banks.

Net borrowings by a branch or agency from its foreign bank (including its foreign offices), except to the extent of the capital equivalency allowance described below, will be reservable at the Eurodollar reserve ratio even if the funds borrowed represent the proceeds of commercial paper issued in the United States by the foreign bank. Funds raised in the United States by a branch or agency directly, however,

will be subject to basic domestic reserve requirements unless raised in a form specifically exempted by Regulation D, such as interbank borrowings or repurchase agreements on United States government or agency securities.

Much of the funding for branches and agencies is provided by advances from their foreign banks. Since a branch or an agency is part of its foreign bank's corporate entity, it has no separate capital account in the domestic banking sense. However, a portion of advances from the foreign bank serves purposes similar to that of capital of domestic banks, which is not subject to reserve requirements. Consequently, the Board has provided that, in determining reserve requirements, a branch or agency will be permitted to deduct a capital equivalency allowance equal to 8 per cent of certain assets from the net advances from its foreign bank (including its foreign offices). However, the capital equivalency allowance that may be deducted may not exceed net advances. The asset base to which the 8 per cent figure will be applied will be total branch or agency assets less United States coin and currency, cash items in process of collection and unposted debits, balances due from domestic banks and other foreign banks, balances due from foreign central banks, and net balances due from its foreign bank and the foreign bank's United States and foreign offices. Balances held at the Federal Reserve will not be deducted from total assets in computing the asset base for the 8 per cent capital equivalency allowance. This capital equivalency allowance should contribute both to competitive equity and to the safety and soundness of branches and agencies. The capital equivalency allowance for basic reserve requirements differs from that used in connection with the managed liabilities program. However, if the marginal reserve program is in effect on September 4, 1980, the effective date, the capital equivalency allowance for managed liabilities will be eliminated.

Asset Sales

A domestic bank can fund its operations from deposits or borrowings in the money markets or from affiliates. It can also obtain funds by selling a portion of its assets. In each instance, the domestic bank obtains additional funds to lend in its banking business. Funds obtained by a member bank from the sale of domestic assets (such as loans to U. S. residents) to its foreign branches are subject to Euro-dollar reserve requirements (§ 204.5(d) of Regulation D; 12 CFR 204.5(d)). In order to provide similar treatment for branches and agencies, the Board has determined that the proceeds of the sale of any domestic asset by a branch or agency to its foreign bank (including its non-U. S. offices) or foreign parent bank holding company will be subject to Eurodollar reserve requirements. However, domestic assets that are required to be sold for Federal or State supervisory purposes will not be subject to Eurodollar reserve requirements.

Regulation Q

Regulation Q (12 CFR Part 217) prescribes rules governing the payment of interest on deposits, including limitations on the rates of interest that may be paid by member banks on time and savings deposits. Regulation Q also includes provisions that (1) prohibit the payment of interest on deposits that are payable on demand or that have a maturity of less than 30 days; (2) specify the terms and conditions under which member banks may pay savings and time deposits before maturity; and (3) prescribe rules governing the advertisement of interest paid on deposits. The Federal Deposit Insurance Corporation has established substantially similar regulations (12 CFR Part 329) that apply to non-member banks.

Effective September 4, 1980, the Board is applying Regulation Q to the following offices of parent foreign banks having total worldwide consolidated bank assets in excess of \$1 billion: insured and uninsured Federal branches, uninsured State branches, and Federal and State agencies. Under section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. § 1828(g)), Part 329 will apply to all insured State branches and to insured Federal branches of foreign banks with total worldwide consolidated bank assets of \$1 billion or less.

Access to Federal Reserve Services

The IBA states that, subject to restrictions, limitations, and regulations of the Board, each Federal Reserve Bank may provide services to a branch or agency in the same manner and to the same extent as to a member bank if such branch or agency is maintaining Federal reserves. The IBA also states that, in providing services to a branch or agency, each Federal Reserve Bank shall give due regard to account balances being maintained with it by the branch or agency and the proportion of the assets of such branch or agency being held as reserves (12 U.S.C. § 347d).

Under the Board's procedure of statewide aggregation for calculating reserve requirements for branches and agencies, reserve accounts will be maintained at Federal Reserve Banks in each District in which a foreign bank operates. Federal Reserve services will be made available to branches and agencies locally through the Reserve Banks with which they maintain accounts. The Board believes that access to Federal Reserve services on a local basis is appropriate in order to further the IBA's goal of promoting competitive equality between branches and agencies and domestic depository institutions. Federal Reserve services will be available to branches and agencies beginning September 4, 1980, the effective date of the reserve requirement regulation. As authorized by the IBA, Federal Reserve Banks may require branches and agencies to maintain a level of clearing balances consistent with the level of services being provided.

A branch or agency may make mutually agreeable arrangements with the Reserve Bank at which it maintains an account to hold a portion of its reserve balance in a nontransactional account that would be available to State or Federal supervisory authorities pursuant to various asset pledge requirements. Such an account could not be used for clearing purposes and could not be used to meet any clearing balance requirement established by a Reserve Bank.

Access to discount window

In accord with the IBA's policy of national treatment, extensions of credit from the Federal Reserve discount window generally will be made available to branches and agencies under the same policies applicable to domestic money center banks, their primary competitors. However, these policies will be modified somewhat in recognition of the operational and structural differences between branches and agencies and domestic money center banks. A branch or agency will be expected to draw upon other reasonable sources of funds, including its foreign bank and domestic and foreign money markets, before turning to the discount window for short-term adjustment credit. Moreover, adjustment credit will not normally be available to a branch or agency if it were funding or intended to fund other related institutions, foreign or domestic. As is the case with money center banks, a branch or agency will not normally be eligible for the Seasonal Borrowing Program. Emergency credit will be extended to a branch or agency only with prior Board approval.

The appropriateness of borrowing by a branch or agency will be determined by the needs of the individual office. Each branch or agency will be permitted to borrow from the Reserve Bank of the District in which the branch or agency is located. However, Reserve Bank lending to all U. S. offices of a foreign bank will be coordinated and monitored on a nationwide basis to assure compliance with the policies for borrowing from the Federal Reserve.

Implementation of reserve requirements

The Board recognizes that substantial revisions in the accounting procedures of branches and agencies may be required as a result of its action. On September 4, 1980, branch and agency basic reserve requirements will commence based on deposits held during the seven-day computation period ending on Wednesday, August 27, 1980. Federal branches and agencies will not be subject to basic reserve requirements until September 4, 1980.^{3/} At that time, branches and agencies will be required

3/ Under § 7 of the IBA, a Federal branch or agency accepting deposits would be required to maintain Federal reserves in the same manner as a member bank. However, since State branches and agencies will not be subject to basic reserve requirements until September 4, 1980, the Board is waiving basic reserve requirements for Federal branches and agencies until that date.

to report data necessary for the administration of reserve requirements, including data for the categories listed in Table 2. Data for these categories are required to be maintained on a daily basis for each computation period and filed with the appropriate Federal Reserve Bank once each week. These data and filing requirements are similar to those of member banks.

Current Board policy permits nonmember banks that become member banks to assume their reserve requirements gradually over a two-year period. The Board has determined that it is appropriate to phase-in reserve requirements for branches and agencies over a similar two-year period. Therefore, reserve requirements will be applied to these institutions on a graduated basis over a 24-month period in accordance with the following schedule:

<u>Succeeding 3-month periods following application of basic reserve requirements</u>	<u>Percentage of reserve requirement to be maintained</u>
1 September 4-December 3, 1980	0
2 December 4, 1980-March 4, 1981	5
3 March 5-June 3, 1981	15
4 June 4-September 2, 1981	25
5 September 3-December 2, 1981	40
6 December 3, 1981-March 3, 1982	55
7 March 4-June 2, 1982	75
8 June 3-September 1, 1982	95
9 September 2, 1982 forward	100

For purposes of the phase-in of reserve requirements, marginal reserve requirements on managed liabilities will not be taken into account, since a branch or agency already is required to maintain such reserves.

Table 2
Reporting Categories for Branches and Agencies for Reserve Requirement Purposes*

1. Demand deposits due to banks.
2. Demand deposits due to the U. S. Government.
3. Other demand deposits (including officers' checks).
4. Demand deposits due from banks.
5. Cash items in process of collection.
6. Savings deposits.
7. Time deposits with original maturities of 30 to 179 days.

* "Deposits" includes credit balances.

8. Time deposits with original maturities of 180 days but less than 4 years.
9. Time deposits with original maturities of 4 years or more.
10. U. S. currency and coin owned and held.
11. Time deposits of \$100,000 or more.
12. Borrowings from foreign banks, foreign national governments, and international institutions.
13. Gross claims on the foreign bank (including its offices located outside the States of the United States and the District of Columbia).
14. Gross liabilities to the foreign bank (including its offices located outside the States of the United States and the District of Columbia).
15. Assets sold by a branch or agency to its foreign bank (including its offices located outside the States of the United States and the District of Columbia) or its foreign parent bank holding company.
16. Assets sold by the branch or agency to nonbanking affiliates.
17. Funds received from the sale of ineligible bankers acceptances that have remaining maturities of less than 30 days.
18. Funds received from the sale of ineligible bankers acceptances that have remaining maturities of 30 days or more but less than 180 days.
19. Funds received from the sale of ineligible bankers acceptances that have remaining maturities of 180 days or more but less than 4 years.
20. Funds received from the sale of ineligible bankers acceptances that have remaining maturities of 4 years or more.
21. Total assets less United States coin and currency, cash items in process of collection and unposted debits, balances due from domestic banks and other foreign banks, balances due from foreign central banks and net balances due from the foreign bank and the foreign bank's U. S. and foreign offices.

Edge Corporations

Under section 25(a) of the Federal Reserve Act (12 U.S.C. § 615), Edge Corporations are required to maintain reserves in such amounts as the Board may prescribe for member banks. In addition, Congress has expressed the view in the IBA that Edge Corporations should have powers sufficiently broad to enable them to compete effectively with foreign-owned banking institutions in the United States and abroad. The Board has amended Regulations D and K in order to treat Edge Corporations and their branches for reserve purposes in generally the same manner as the agencies and branches of foreign banks. Under the Board's action, any two or more offices of an Edge Corporation operating in the same State will submit aggregated reports of deposits to, and maintain reserves with, the Federal Reserve Bank in whose District they operate. However, Edge Corporation offices located in the same State but in different Federal Reserve Districts will report deposits and maintain reserves separately with their Reserve Banks. In reporting deposits for purposes of calculating reserve requirements, Edge Corporation offices will exclude transactions with other offices of the same Edge Corporation. Federal Reserve services will be made available to Edge Corporation offices through the Reserve Banks with which they maintain their accounts. The Federal Reserve discount window, however, is unavailable to Edge Corporations.

If a foreign bank established an Edge Corporation, as permitted for the first time by the IBA, the deposits of the offices of the Edge Corporation would not be aggregated with those of the branches and agencies of that foreign bank for purposes of calculating reserve requirements. This treatment parallels the treatment of Edge Corporations owned by domestic banks, since, at present, deposits of Edge Corporations owned by U. S. banks are not aggregated with those of their parent bank for purposes of calculating reserve requirements. The capital equivalency allowance, however, will not be available to Edge Corporations.

These actions are taken pursuant to the Board's authority under section 7 of the International Banking Act of 1978 (12 U.S.C. § 3105), section 13 of the Federal Reserve Act (12 U.S.C. § 347d), section 19 of the Federal Reserve Act (12 U.S.C. §§ 371a, 371b, 461 et seq.), and section 25(a) of the Federal Reserve Act (12 U.S.C. §§ 611 et seq.).

Effective September 4, 1980, Regulation A (12 CFR Part 201), Regulation D (12 CFR Part 204), Regulation K (12 CFR Part 211), and Regulation Q (12 CFR Part 217) are amended as follows:

1. Section 201.1 of Regulation A (12 CFR 201.1) is amended to read as follows:

§ 201.1 AUTHORITY AND SCOPE

This Part is issued under the authority of section 13 (12 U.S.C. §§ 343 et seq.) and other provisions of the Federal Reserve Act and relates to extensions of credit by Federal Reserve Banks. Except as may be otherwise provided, this Part shall be applicable to United States branches and agencies of foreign banks subject to reserve requirements under 12 CFR Part 204 in the same manner and to the same extent as to member banks.

2. Regulation D (12 CFR Part 204) is amended by adding a new section 204.0 as follows:

§ 204.0 AUTHORITY AND SCOPE

(a) This Part is issued under the authority of section 19 (12 U.S.C. §§ 461 et seq.) and other provisions of the Federal Reserve Act and of section 7 of the International Banking Act of 1978 (12 U.S.C. § 3105).

(b) This Part relates to the reserves that member banks are required to maintain against deposits. A foreign bank's branch or agency located in the States of the United States or the District of Columbia is required to comply with the provisions of this Part in the same manner and to the same extent as if the branch or agency were a member bank, except as may be otherwise provided by the Board, if (i) its parent foreign bank has total worldwide consolidated bank assets in excess of \$1 billion; (ii) its parent foreign bank is controlled by a foreign company which owns or controls foreign banks that in the aggregate have total worldwide consolidated bank assets in excess of \$1 billion; or (iii) its parent foreign bank is controlled by a group of foreign companies that own or control foreign banks that in the aggregate have total worldwide consolidated bank assets in excess of \$1 billion.

(c) The provisions of this Part do not apply to any deposit that is payable only at an office located outside the States of the United States and the District of Columbia.

3. Section 204.1 of Regulation D (12 CFR 204.1) is amended to read as follows:

§ 204.1 DEFINITIONS

* * * * *

(b) Time deposits. *** "Time deposits" does not include the liability of a United States branch or agency of a foreign bank to another United States branch or agency of the same foreign bank, or the liability of a United States office of an Edge Corporation to another United States office of the same Edge Corporation.

* * * * *

(g) Gross demand deposits. *** "Gross demand deposits" also includes officers' checks issued by or drawn by a United States branch or agency of a foreign bank, including checks drawn as agent for or on behalf of its foreign bank or offices thereof located outside the States of the United States and the District of Columbia. "Gross demand deposits" does not include the liability of a United States branch or agency to another United States branch or agency of the same foreign bank, or the liability of a United States office of an Edge Corporation to another United States office of the same Edge Corporation.

* * * * *

(k) Credit balances. For purposes of this Part, the term "deposits" also includes the credit balances of a United States branch or agency of a foreign bank.

(l) Foreign bank. "Foreign bank" means any bank organized under the laws of any country other than the United States (including its States and the District of Columbia), or organized under the laws of Puerto Rico, Guam, American Samoa, the Virgin Islands, or a territory or possession of the United States.

4. Section 204.2 of Regulation D (12 CFR 204.2) is revised to read as follows:

§ 204.2 COMPUTATION OF RESERVES

* * * * *

(b) Deductions allowed in computing reserves. In determining the reserve balances required under the terms of this Part, the amounts of balances subject to immediate withdrawal due from other banks, including such amounts due from United States branches and agencies of foreign banks, and cash items in process of collection as defined in § 204.1(h) may be deducted from the amount of gross demand deposits. However, United States branches and agencies of a foreign bank may not deduct balances due from another United States branch or agency of the same foreign bank, and United States offices of an Edge Corporation may not deduct balances due from another United States office of the same Edge Corporation. Balances "due from other banks" do not include balances due from Federal Reserve Banks, or balances (payable in dollars or otherwise) due from banking offices located outside the States of the United States and the District of Columbia.^{10/}

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5. Section 204.3 of Regulation D (12 CFR 204.3) is amended to read as follows:

§ 204.3 DEFICIENCIES IN RESERVES

* * * * *

(e) United States branches and agencies of foreign banks. A foreign bank's United States branches and agencies operating within the same State and within the same Federal Reserve District shall prepare and file a Report of Deposits on an aggregated basis, shall maintain required reserves with the Federal Reserve Bank of their District, and shall be assessed penalties in accordance with the provisions of paragraphs (a) through (d) of this section.

(f) Edge Corporations. An Edge Corporation's offices operating within the same State and within the same Federal Reserve District shall prepare and file a Report of Deposits on an aggregated basis, shall maintain required reserves with the Federal Reserve Bank of their District, and shall be assessed penalties in accordance with the provisions of paragraphs (a) through (d) of this section.

6. Section 204.5 of Regulation D (12 CFR 204.5) is amended to read as follows:

§ 204.5 RESERVE REQUIREMENTS

(a) Reserve Percentages. * * * In determining the deposits of United States branches and agencies of foreign banks against which reserve balances are required to be maintained, the deposits of United States branches and agencies of a foreign bank shall be aggregated for all offices operating within the same State and within the same Federal Reserve District. In determining the deposits of United States offices of Edge Corporations against which reserve balances are required to be maintained, the deposits of United States offices of an Edge Corporation shall be aggregated for all offices operating within the same State and within the same Federal Reserve District.

* * * * *

(d) Foreign branch transactions with parent bank.

(1) Member banks. During each week of the four-week period beginning May 22, 1975, and during each week of each successive four-week ("maintenance") period, a member bank having one or more foreign branches shall maintain with the Reserve Bank of its District, as a reserve against its foreign branch deposits, a daily average balance equal to zero per cent of the daily average total of --

(i) net balances due from its domestic offices to such branches, and

(ii) assets (including participations) held by such branches which were acquired from its domestic offices (other than assets representing credit extended to persons not residents of the United States), during the four-week computation period ending on the Wednesday fifteen days before the beginning of the maintenance period.

(2) United States branches and agencies of foreign banks.

During each reserve maintenance period, a United States branch or agency of a foreign bank shall maintain a reserve against its deposits equal to a daily average balance of zero per cent of the daily average total of --

(i) net balances due to its foreign bank (including offices thereof located outside the States of the United States and the District of Columbia) after deducting an amount equal to 8 per cent of the United States branch's or agency's total assets less United States coin and currency, cash items in the process of collection and unposted debits, balances due from domestic banks and other foreign banks, balances due from foreign central banks, and net balances due from its foreign bank and its United States and non-United States offices, however, the amount that may be deducted may not exceed net balances due to the foreign bank (including offices thereof located outside the States of the United States and the District of Columbia), and

(ii) assets (including participations) held by its foreign bank (including offices of the foreign bank located outside the States of the United States and the District of Columbia or its parent holding company that were acquired from the United States branch or agency (other than assets required to be sold by Federal or State supervisory authorities or assets representing credit extended to persons not residents of the United States¹³) during the computation period ending on the Wednesday eight days before the beginning of the maintenance period. Reserves that may be required against assets sold to nonbanking affiliates under § 204.1(f) of this section shall be maintained in accordance with § 204.5(a) of this section.

(e) Foreign branch credit extended to United States residents. * * *

This paragraph does not apply to United States branches and agencies of foreign banks.

* * * * *

13/ A United States resident is: (a) Any individual residing (at the time the credit is extended) in any State of the United States or the District of Columbia; (b) any corporation, partnership, association or other entity organized therein ("domestic corporation"); and (c) any branch or office located therein of any other entity wherever organized. Credit extended to a foreign branch, office, subsidiary, affiliate or other foreign establishment ("foreign affiliate") controlled by one or more such domestic corporations will not be deemed to be credit extended to a United States resident if the proceeds will be used in its foreign business or that of other foreign affiliates of the controlling domestic corporation(s).

7. Section 211.4(d) of Regulation K (12 CFR 211.4(d)) is revised as follows:

(d) Reserve requirements and interest rate limitations. The deposits of an Edge Corporation are subject to the reserve requirements of Part 204 (Regulation D) and the interest rate limitations of Part 217 (Regulation Q) in the same manner and to the same extent as if the Edge Corporation were a member bank, except as may be otherwise provided by the Board.

8. Section 217.0 of Regulation Q (12 CFR 217.0) is amended as follows:

§ 217.0 AUTHORITY AND SCOPE

* * * * *

(c) Under authority of the provisions of section 7 of the International Banking Act of 1978 (12 U.S.C. § 3105), the provisions of this Part apply to a Federal branch or agency of a foreign bank and to a State uninsured branch or agency of a foreign bank in the same manner and to the same extent as if the branch or agency were a member bank, except as may be otherwise provided by the Board, if (i) its parent foreign bank has total worldwide consolidated bank assets in excess of \$1 billion; (ii) its parent foreign bank is controlled by a foreign company which owns or controls foreign banks that in the aggregate have total worldwide consolidated bank assets in excess of \$1 billion; or (iii) its parent foreign bank is controlled by a group of foreign companies that own or control foreign banks that in the aggregate have total worldwide consolidated bank assets in excess of \$1 billion.

(d) The provisions of this Part do not apply to any deposit that is payable only at an office located outside of the States of the United States and the District of Columbia of a member bank or of a foreign bank.

9. Section 217.1 of Regulation Q (12 CFR 217.1) is amended by adding the following:

§ 217.1 DEFINITIONS

* * * * *

(i) Credit balances. For purposes of this Part, the term "deposits" also includes the credit balances of a United States branch or agency of a foreign bank.

(j) Foreign bank. "Foreign bank" means any bank organized under the laws of any country other than the United States (including its States and the District of Columbia), or organized under the laws of Puerto Rico, Guam, American Samoa, the Virgin Islands, or a territory of the United States.

By order of the Board of Governors, March 19, 1980.

(signed) Griffith L. Garwood

Griffith L. Garwood
Deputy Secretary of the Board

[SEAL]