FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8962
November 26, 1980]

INTERNATIONAL BANKING OPERATIONS

Amendments to Regulation K

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

The Board of Governors of the Federal Reserve System has announced the adoption of amendments to its Regulation K, "International Banking Operations," granting the Board's general consent for member banks, Edge and Agreement Corporations, and bank holding companies to make certain additional investments in organizations in which they already have an interest.

The following is quoted from the text of the Board's announcement:

> The Board has established the general consent provision to give United States investors flexibility in making their foreign investments, and to minimize their regulatory burden.
>
> The revised general consent provisions:
>
> 1. Provide that dividends reinvested within a year of receipt do not reduce the additional investment permissible under general consent.
> 2. Apply the accumulation provisions retrospectively as well as prospectively.
> 3. Limit the size of additional investments that can be made under the accumulation provision of the general consent rules to 10 percent of the investor's capital and surplus.
> 4. Provide a definition of historical cost.

Enclosed is a copy of the amendments to Regulation K. Questions regarding this matter may be directed to our Foreign Banking Applications Department (Tel. No. 212-791-5878 or 5881).

ANTHONY M. SOLOMON,
President.

Board of Governors of the Federal Reserve System

INTERNATIONAL BANKING OPERATIONS

AMENDMENTS TO REGULATION K

(Effective November 13, 1980)

FEDERAL RESERVE SYSTEM

12 CFR Part 211

[Regulation K; Docket No. R-0290]

International Banking Operations; Additional Investments Under General Consent Procedures

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board of Governors of the Federal Reserve System has adopted a final rule to amend provisions of Regulation K governing investments by member banks, Edge and Agreement Corporations, and bank holding companies ("investors"). Under current regulations, the Board has granted its general consent for an investor to make certain additional investments in an organization in which it already has an investment, in relation to the investor's historical cost in the organization. In response to many inquiries from banking organizations, the Board proposed a revised rule on April 30, 1980, to clarify certain rights of accumulation under the provision, and to limit the amount that may be invested under this provision of the general consent in one organization to 10 per cent of the investor's capital and surplus.

EFFECTIVE DATE: November 13, 1980.

FOR FURTHER INFORMATION CONTACT: Michael L. Kadish, Attorney, Legal Division (202-452-3428), or Henry N. Schiffman, Division of Banking Supervision and Regulation (202-452-2523), Board of Governors of the Federal Reserve System.

SUPPLEMENTARY INFORMATION: On June 14, 1979, the Board revised its regulations governing the international operations of member banks, Edge and Agreement Corporations, and bank holding companies and consolidated them into one regulation, Regulation K. Section 211.5 of Regulation K sets forth the kinds of investments that are permissible for U.S. banking organizations and establishes procedures by which such investments may be made. In paragraph (c)(1)(ii) of that section, the Board granted its general consent (*i.e.*, no prior notification to or approval of the Board required) for the making of limited additional investments in an organization in which the investor already has an interest, in order to afford U.S. banking organizations a degree of flexibility in managing their foreign investments.

Inquiries from several U.S. banking organizations indicated that this part of the regulation was not having its intended effect. On April 30, 1980, the Board proposed to amend the section to:

1. Define "historical cost," which is the basis by which the authority to make additional investments under the general consent is measured;
2. Clarify the circumstances in which dividends could be reinvested under general consent;
3. Define general consent investment rights primarily in terms of percentages of historical cost without reference to accumulation of rights; and
4. Limit the size of additional investments that could be made under this provision to 10 per cent of an investor's capital and surplus.

The proposed rule would have amended § 211.5(c)(1)(ii) to clarify that an investor may reinvest cash dividends under general consent only in the year in which they are received. The final rule adds a new § 211.5(c)(1)(iii), which grants the Board's general consent to reinvest dividends within one year after the date of receipt of such dividends. The right to reinvest dividends received would be noncumulative under the final rule.

The rule as proposed generally would have permitted an investor to make additional investments in an amount not exceeding the sum of 50 per cent of historical cost plus cash dividends received during the year less any amounts that it has invested in the organization (including dividends reinvested) during the previous four calendar years. The final rule provides that dividends reinvested within one year of receipt do not reduce the additional investment that may be made under general consent. The final rule also provides that any investment in an organization, pursuant to section 211.5(c), will reduce the additional amount that an investor may invest in that organization in any year under general consent.

Finally, the Board adopted, substantially as proposed, a provision defining "historical cost", and a provision limiting additional

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For this Regulation to be complete retain:

1) Printed regulation pamphlet dated June 14, 1979.
2) Amendments dated November 28, 1979 and October 2, 1980.
3) This slip sheet.

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investments that may be made under general consent procedures to 10 per cent of the investor's capital and surplus. An investment exceeding this limit would have to be made under specific consent procedures.

This action is taken pursuant to the Board's authority under sections 25 and 25(a) of the Federal Reserve Act (12 U.S.C. 601, 615) and section 4(c)(13) of the Bank Holding Company Act (12 U.S.C. 1843(c)(13)).

Effective November 13, 1980, Part 211 of 12 CFR Chapter II is amended as follows:

By revising § 211.5(c)(1)(ii) and redesignating paragraph (c)(1)(iii) as (c)(1)(iv) and adding a new paragraph (c)(1)(iii) as follows:

§ 211.5 Investments in other organizations.

* * * * *

(c) *Investment Procedures.*

* * * * *

(1) *General consent.* The Board grants its general consent for the following:

* * * * *

(ii) Any additional investment in an organization in any calendar year so long as (A) the investment does not cause the organization to be a direct or indirect subsidiary or joint venture of the investor; (B) the total amount invested in that calendar year does not exceed 10 per cent of investor's capital and surplus; and, (C) the total amount invested under Part 211 in the current calendar year does not exceed cash dividends reinvested pursuant to paragraph (iii) below plus the greater of (*1*) 10 per cent of the investor's direct and indirect historical cost [6] in such organization, or (*2*) 50 per cent of the investor's direct and indirect historical cost in that organization less any amounts invested in that organization during the previous four calendar years (excluding dividends reinvested pursuant to paragraph (iii) below); or

(iii) Any additional investment in an organization in an amount equal to cash dividends received from that organization during the preceding 12 calendar months so long as such investment does not cause the organization to be a direct or indirect subsidiary or joint venture of the investor; or

(iv) * * *

[6] The "historical cost" of an investment consists of the actual amounts paid for shares or otherwise contributed to the capital accounts, as measured in dollars at the exchange rate in effect at the time each investment was made. It does not include subordinated debt or unpaid commitments to invest even though these may be considered investments for other purposes of this Part. For investments acquired indirectly as a result of acquiring a subsidiary, the historical cost to the investor is measured as of the date of acquisition of the subsidiary; at the net asset value of the equity interest in the case of subsidiaries and joint ventures, and in the case of portfolio investments, at the book carrying value.