

**FEDERAL RESERVE BANK
OF NEW YORK**

Circular No. 9124
August 6, 1981

AMENDMENT TO REGULATION K
Capital Requirements of Edge Corporations

*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 amended its Regulation K, "International Banking Operations," in order to permit the inclusion of certain subordinated notes and debentures in the determination of capital adequacy of Edge Corporations.

Enclosed is a copy of the amendment. 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

AMENDMENT TO REGULATION K

(effective July 29, 1981)

Capital Requirements of Edge Corporations

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board has amended section 211.6(d) of Regulation K (12 C.F.R. § 211.6(d)) to include certain subordinated notes and debentures within the definition of "capital and surplus" solely for the purpose of determining capital adequacy of Edge Corporations. For purposes of section 211.6(d), such notes and debentures could amount to no more than 50 per cent of the total capital and surplus as defined in section 211.2(b) of Regulation K (12 C.F.R. § 211.2(b)).

EFFECTIVE DATE: July 29, 1981.

FOR FURTHER INFORMATION CONTACT: Frederick R. Dahl, Associate Director, Division of Banking Supervision and Regulation (202/452-2726); or Michael L. Kadish, Attorney, Legal Division (202/452-3428), Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

SUPPLEMENTARY INFORMATION: Section 211.6(d) of Regulation K imposes capital requirements on Edge Corporations. Under that section, an Edge Corporation must be capitalized in an amount that is adequate in relation to the scope and character of its activities. In addition, an Edge Corporation that accepts deposits in the United States from nonaffiliated persons must maintain capital in an amount not less than 7 per cent of its risk assets. Section 211.2(b) of Regulation K provides that, "Capital and surplus means paid-in and unimpaired capital and surplus, and includes undivided profits but does not include the proceeds of capital notes or debentures."

The Board, however, permits member banks to include certain long-term subordinated liabilities as capital and surplus for capital adequacy purposes. Such liabilities must not be "deposits" under section 204.2(a)(1) of the Board's Regulation D (12 C.F.R. § 204.2(a)(1)), or section 217.1(f) of the Board's Regulation Q (12 C.F.R. § 217.1(f)). In order to provide Edge Corporations with more flexibility to meet capital requirements, the Board has determined that Edge Corporations may also include such liabilities as capital and surplus for capital

adequacy purposes. The Board, however, will continue to stress the importance of an adequate level of non-debt capital for Edge Corporations; therefore, such subordinated debt liabilities will not be considered as capital to the extent they exceed 50 per cent of the amount of non-debt capital and surplus. Furthermore, pursuant to section 204.2(a)(1)(vii)(C) of Regulation D, no subordinated debt liability of an Edge Corporation will qualify as capital without the approval of the Board, like the treatment of member bank capital.

Inasmuch as this action removes a restriction on Edge Corporations and should permit more efficient operations, the Board has determined that the notice and public participation provisions of 5 U.S.C. § 553 with respect to this action are unnecessary and that, in the public interest, the rule should be effective immediately. The Board notes, however, that on June 17, 1981, the Federal Financial Institutions Examination Council proposed for comment a broadened definition of bank capital for the use of Federal bank regulatory agencies, including the Board, in determining the adequacy of capital in the banks they supervise. Comments on that proposal are due by August 31, 1981. Any change in the definition of bank capital adopted by the Board for determining the adequacy of member banks' capital would also affect the definition used with respect to Edge Corporations.

This action is taken pursuant to the Board's authority under section 25 (a) of the Federal Reserve Act (12 U.S.C. §§ 611-631).

Effective July 29, 1981, Part 211 of 12 C.F.R. Chapter II is amended as follows:

§ 211.6--LENDING LIMITS AND CAPITAL REQUIREMENTS

* * * * *

(d) Capitalization. An Edge Corporation shall at all times be capitalized in an amount that is adequate in relation to the scope and character of its activities. In the case of an Edge Corporation engaged in banking, its capital and surplus shall be not less than 7 per cent of risk assets. For this purpose, subordinated capital notes or debentures, in an amount not to exceed 50 per cent of non-debt capital, may be included for determining capital adequacy in the same manner as for a member bank; risk assets shall be deemed to be all assets on a consolidated basis other than cash, amounts due from banking institutions in the United States, United States Government securities, and Federal funds sold.

By order of the Board of Governors of the Federal Reserve System, effective July 29, 1981.

William W. Wiles
Secretary of the Board