

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 9166]
[October 21, 1981]

PROPOSED AMENDMENT TO REGULATION K

Investment Advisory and Management Services by 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 requested comment on a proposal to amend its Regulation K, "International Banking Operations," to permit Edge Corporations to engage in certain investment advisory and management services. The following is quoted from the text of the Board's announcement:

The Board requested comment by December 18, 1981.

The Board acted in connection with a request by the Bank of America to engage in these activities through its Edge Corporation subsidiary.

An Edge Corporation is a company authorized under provisions of the Federal Reserve Act to engage in international or foreign financial or banking activities and certain incidental activities. The Board's Regulation K specifies what activities conducted in the United States will ordinarily be considered incidental to an Edge Corporation's international or foreign business. The proposal would amend Regulation K to include in this list:

Provision of economic, financial, and investment advisory services and managing, on behalf of customers who are not residents of the United States, investment portfolios comprised of securities, and other financial instruments, and real estate.

In addition to requesting comment on this proposal, the Board asked for comment on the question whether the provision of these services might be extended, with respect to foreign investments, to customers who are residents of the United States.

Printed on the reverse side is the text of the proposed amendment to Regulation K. Comments thereon should be submitted by December 18, 1981, and may be sent to our Foreign Banking Applications Department.

ANTHONY M. SOLOMON,
President.

(OVER)

FEDERAL RESERVE SYSTEM

12 CFR Part 211

[Reg. K; Docket No. R-0366]

International Banking Operations; Edge Corporations

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rulemaking.

SUMMARY: The Board of Governors of the Federal Reserve System is proposing an amendment to its Regulation K that would add a new activity to the list of activities permissible for Edge Corporations in the United States. The amendment would permit Edge Corporations to offer to their foreign customers certain investment and economic advisory and investment management services in the United States. This action is being taken in response to a request from a member bank.

DATE: Comments must be received by December 18, 1981.

ADDRESS: Comments should include a reference to Docket Number R-0366 and should be mailed to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, or be delivered on weekdays to Room B-2223, 20th and Constitution Avenue, NW., Washington, D.C., between 8:45 a.m. and 5:15 p.m. Any comments received may be inspected on weekdays in Room B-1122 between 8:45 a.m. and 5:15 p.m.

FOR FURTHER INFORMATION CONTACT: Henry Schiffman, Division of Banking Supervision and Regulation, (202) 452-2523, James Keller, Senior Attorney, (202) 452-3582, or Melanie Fein, Attorney (202) 452-3594, Legal Division, Board of Governors of the Federal Reserve System.

SUPPLEMENTARY INFORMATION: Section 25(a) of the Federal Reserve Act (the "Edge Act"), 12 U.S.C. 615, authorizes the organization of corporations ("Edge Corporations") for the purpose of engaging in international or foreign financial or banking operations. The Edge Act specifies certain powers and activities that are permissible for Edge Corporations and authorizes other activities that are incidental thereto. Section 211.4(e) of the Board's Regulation K, 12 CFR 211.4(e), lists activities that will ordinarily be considered to be incidental to an Edge Corporation's international or foreign business and may be conducted in the United States. These activities include certain foreign or international related deposit-taking, funding, and financing activities. Section 3(a) of the

International Banking Act (92 Stat. 607) (12 U.S.C. 611a note) states that it is the policy of Congress to eliminate restrictions that disadvantage or unnecessarily restrict Edge Corporations in competing with foreign-owned banking institutions in the United States or abroad or impede the purposes of the Edge Act to foster United States international business activities.

The Board has been requested by Bank of America National Trust and Savings Association, San Francisco, California to include on the list of activities permissible in the United States for Edge Corporations certain investment and economic advisory and investment management services. These activities would include managing investment portfolios comprised of securities, other financial instruments, and real estate, on behalf of foreign persons. Bank of America states that the customers to whom the Edge Corporation would offer these services would be wealthy individuals residing outside the United States who visit the United States infrequently and are therefore unavailable for consultation on a continual basis. Bank of America believes that such individuals would desire to grant an Edge Corporation discretionary authority over their U.S. investments.

The Board invites interested persons to comment on the proposal. Comment is requested specifically on whether the proposed activity would enable Edge Corporations to compete effectively with foreign-owned institutions consistent with the International Banking Act. The Board also invites comment on the extension of provision of those services to U.S. customers with respect to foreign investments.

Pursuant to the section 605(b) of the Regulatory Flexibility Act (Pub. L. No. 96-354; 5 U.S.C. 601 *et seq.*), the Board of Governors of the Federal Reserve System certifies that the proposed amendment, if adopted, will not have a significant economic impact on a substantial number of small entities. The proposed amendment would liberalize the existing regulations and does not have any particular effect on small entities.

PART 211—INTERNATIONAL BANKING OPERATIONS

Accordingly, pursuant to its authority under section 25(a) of the Federal Reserve Act, 12 U.S.C. 615, the Board of Governors of the Federal Reserve System proposes to amend 12 CFR Part 211 as follows:

1. The authority citation for Part 211 reads as follows:

Authority: Federal Reserve Act (Act U.S.C. 221 *et seq.*); the Bank Holding Company Act of 1956 (12 U.S.C. 1841 *et seq.*); and the International Banking Act of 1978 (Pub. L. 95-369; 92 Stat. 607; (12 U.S.C. 3101))

2. Section 211.4 is amended by adding the following paragraph (e)(4)(xiv):

§ 211.4 - Edge and agreement corporations.

* * * * *

(e) * * *

(4) * * *

(xiv) Offer to persons from whom an Edge Corporation may receive deposits under § 211.4(e)(1) investment, financial, and economic advisory services, including management of, and advice with respect to, investments. Specifically, these services may consist of (1) providing general economic information; (2) providing portfolio investment advice with respect to securities and other financial instruments, and real estate; and (3) managing investment portfolios, with authority to exercise discretion in buying and selling securities and other financial instruments.

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Board of Governors of the Federal Reserve System, October 9, 1981.

William W. Wiles,

Secretary of the Board.

[FR Doc. 81-30081 Filed 10-15-81; 8:45 am]