

**FEDERAL RESERVE BANK  
OF NEW YORK**

[ Circular No. 9239 ]  
January 26, 1982

**INTERNATIONAL BANKING FACILITIES**

**Revised Interpretation Regarding Purchases and Sales  
of Financial Assets in the Secondary Market**

*To All Depository Institutions in the Second  
Federal Reserve District, and Others Concerned:*

The Board of Governors of the Federal Reserve System has issued a revised interpretation of its rules for International Banking Facilities with respect to purchases and sales of financial assets in the secondary market.

In its ruling dated December 16, 1981 (contained in our Circular No. 9221), the Board decided that IBFs may buy assets eligible to be held by IBFs from, or sell them to, both domestic and foreign parties under certain conditions. One of the conditions stated in the ruling is that an IBF may not purchase such assets from or sell such assets to affiliates of the entity establishing the IBF. The revised ruling limits the foregoing condition to United States affiliates.

Printed on the following pages is a copy of the Board's letter, dated January 12, 1982, containing the text of the revised interpretation. Questions on this matter may be directed to our Legal Department (Tel. No. 212-791-5038).

ANTHONY M. SOLOMON,  
*President.*



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 12, 1982

Questions have been raised concerning the extent to which International Banking Facilities may purchase (or sell) IBF-eligible assets such as loans (including loan participations), securities, CDs, and bankers' acceptances from (or to) third parties. Under the Board's regulations, as specified in § 204.8 of Regulation D, IBFs are limited, with respect to making loans and accepting deposits, to dealing only with certain customers, such as other IBFs and foreign offices of other organizations, and with the entity establishing the IBF. In addition, an IBF may extend credit to a nonbank customer only to finance the borrower's non-U.S. operations and may accept deposits from a nonbank customer that are used only to support the depositor's non-U.S. business.

Consistent with the Board's intent, IBFs may purchase IBF-eligible assets<sup>1/</sup> from, or sell such assets to, any domestic or foreign customer provided that the transactions are at arm's length without recourse. However, an IBF of a U.S. depository institution may not purchase assets from, or sell such assets to, any U.S. affiliate of the institution establishing the IBF; an IBF of an Edge or Agreement corporation may not purchase assets from, or sell assets to, any U.S. affiliate of the Edge or Agreement corporation or to U.S.<sup>2/</sup> branches of the Edge or Agreement corporation other than the branch<sup>2/</sup> establishing the IBF; and an IBF of a U.S. branch or agency of a foreign bank may not purchase assets from, or sell assets to any U.S. affiliate of the foreign bank or to any other U.S. branch or agency of the same foreign bank.<sup>2/</sup> (This would not prevent an IBF from purchasing (or selling) assets directly from (or to) any IBF, including an IBF of an affiliate, or to the institution establishing the IBF; such purchases from the institution establishing the IBF would continue to be subject to Eurocurrency

1/ In order for an asset to be eligible to be held by an IBF, the obligor or issuer of the instrument, or in the case of bankers' acceptances, the customer and any endorser or acceptor, must be an IBF-eligible customer.

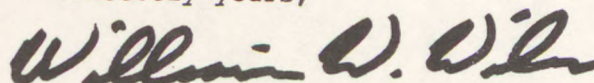
2/ Branches of Edge or Agreement corporations and agencies and branches of foreign banks that file a consolidated report for reserve requirements purposes (FR 2900) are considered to be the establishing entity of an IBF.

reserve requirements except during the initial four-week transition period.) Since repurchase agreements are regarded as loans, transactions involving repurchase agreements are permitted only with customers who are otherwise eligible to deal with IBFs, as specified in Regulation D.

In the case of purchases of assets, in order to determine that the Board's use-of-proceeds requirement has been met, it is necessary for the IBF (1) to ascertain that the applicable IBF notices and acknowledgments have been provided, or (2) in the case of loans or securities, to review the documentation underlying the loan or security, or accompanying the security (e.g., the prospectus or offering statement), to determine that the proceeds are being used only to finance the obligor's operations outside the U.S., or (3) in the case of loans, to obtain a statement from either the seller or borrower that the proceeds are being used only to finance operations outside the U.S., or in the case of securities, to obtain such a statement from the obligor, or (4) in the case of bankers' acceptances, to review the underlying documentation to determine that the proceeds are being used only to finance the parties' operations outside the United States.

Under the Board's regulations, IBFs are not permitted to issue negotiable Euro-CDs, bankers' acceptances, or similar instruments. Accordingly, consistent with the Board's intent in this area, IBFs may sell such instruments issued by third parties that qualify as IBF-eligible assets provided that the IBF, its establishing institution and any affiliate of the institution establishing the IBF do not endorse, accept, or otherwise guarantee the instrument.

Sincerely yours,



William W. Wiles  
Secretary

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS  
AND OFFICERS IN CHARGE OF BRANCHES