

**FEDERAL RESERVE BANK  
OF NEW YORK**

[ Circular No. 9907  
August 14, 1985 ]

**REDUCING RISKS ON LARGE-DOLLAR WIRE TRANSFER SYSTEMS**

**Application of the Policy to U.S. Branches and Agencies of Foreign Banks**

*To All Depository Institutions  
in the Second Federal Reserve District:*

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has issued an interpretation of its May 17, 1985 policy statement regarding risks on large-dollar wire transfer systems. The interpretation clarifies the policy as it applies to U. S. branches and agencies of foreign banks.

The Board's policy, designed to reduce risks, strongly urges all financial institutions to adopt a sender net debit cap. The policy calls for the cap to be based on a self-evaluation by each institution of its creditworthiness, credit policies, and operational controls and procedures. The institution's board of directors would be responsible for the review of the self-evaluation and maintenance of the cap level.

The Board's interpretation makes it clear that a foreign bank should undergo the same self-evaluation process as domestic institutions, with review by its board of directors or other appropriate senior management at the bank's home office.

The Board's interpretation is enclosed; the policy statement was announced in our Circular No. 9868, dated May 31, 1985. Comments or questions on the interpretation may be directed to Cathy E. Minehan, Vice President, who is this District's daylight overdraft liaison officer (Tel. No. 212-791-7766), or to her alternate, George R. Juncker, Chief Compliance Examiner (Tel. No. 212-791-5183).

E. GERALD CORRIGAN,  
*President.*

FEDERAL RESERVE SYSTEM

[Docket No. R-0515]

Interpretation

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Interpretation.

SUMMARY: On May 17, 1985, the Board issued a policy statement regarding risks on large-dollar wire transfer systems urging, among other things, that institutions participating on large-dollar wire networks adopt sender net debit caps. The Board's interpretation states that in determining the sender net debit cap to be applied to its U.S. branches and agencies, a foreign bank should undergo the same self-evaluation process as domestic banks, with review by its board of directors or senior management of the home office, as appropriate.

FOR FURTHER INFORMATION CONTACT: Edward C. Ettin, Deputy Director, Division of Research and Statistics (202-452-3368); Joseph R. Alexander, Attorney, Legal Division (202-452-2489); or Joy W. O'Connell, Telecommunication Device for the Deaf, TDD (202-452-3244).

SUPPLEMENTARY INFORMATION: The Board of Governors has issued the following interpretation of its policy statement concerning risks on large-dollar wire transfer systems:

A question has been raised whether the board of directors of a foreign bank should confirm the risk category to be applied in determining the cross-system sender net debit cap for its U.S. branches and agencies.

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The Board believes that, so far as possible, U.S. branches and agencies of foreign banks should be treated in the same manner as domestic banks. Accordingly, the Board believes that in determining the sender net debit caps to be applied to its U.S. branches and agencies, a foreign bank should undergo the same self-evaluation process as domestic banks.

Many foreign banks, however, do not have the same management structure as U.S. banks. For example, the bank's board of directors may have a more limited role to play in the management of a foreign bank than U.S. directors play in the management of U.S. banks. In such circumstances, the self-evaluation and the cap level should be reviewed by senior management at the foreign bank's head office that exercises authority over the foreign bank that is equivalent to that exercised by the board of directors over a U.S. bank. In those cases where a foreign bank's board of directors does exercise authority equivalent to that exercised by a U.S. board, review of the self-evaluation should be performed by the board of directors.

In most cases it may not be possible for the U.S. examiners to review the minutes of the meeting a foreign bank's board of directors or other appropriate management group at which the self-evaluation was discussed. In lieu of this, the

file on the self-evaluation that is made available for examiner review by the U.S. offices of a foreign bank should contain the report on the self-evaluation made to the foreign bank's senior management by the management of U.S. operations. In addition, the file should also contain the appropriate confirming response to this report by the foreign bank's board of directors or other appropriate senior management. As in the case of U.S. banks, this review and confirmation should be completed every six months.

By order of the Board of Governors of the Federal Reserve System, August 6, 1985.

(signed) Barbara R. Lowrey

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Barbara R. Lowrey  
Associate Secretary of the Board