

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6117]
February 13, 1968

Foreign Activities of Edge Act and Agreement Corporations
—Amendment of Regulation K

*To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:*

Following is the text of a statement issued February 8 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today announced that in view of the purposes of Presidential Executive Order 11387 of January 1, 1968, "Governing Certain Capital Transfers Abroad," the Board is amending, effective immediately, its Regulation K, "Corporations Engaged in Foreign Banking and Financing Under the Federal Reserve Act," the so-called "Edge Act" and "Agreement" corporations, to require the Board's specific approval before such a corporation may make any equity investment in a foreign business.

Formerly, the following investments by such corporations could have been made without application to the Board: (1) acquisition of shares incidental to an extension of credit, (2) acquisition of less than 25 per cent of the shares of a foreign bank, and (3) acquisition of shares at a cost of less than \$200,000 if such investment was likely to further the development of United States foreign commerce.

Under the new rule, all such investments, as in the case of other equity investments by banks or such corporations, are subject to the specific approval of the Board. The Board's approval will also be necessary for such a corporation or a bank to continue to hold shares of a subsidiary that makes any equity investment.

In taking this action the Board indicated that the new provisions are intended to be of temporary duration, and that each request for its approval will be considered in the light of the purposes and aims of the Government's Balance of Payments Program. In general, the Board will consider on its merits any application to make an equity investment elsewhere than in developed countries of continental Western Europe, provided that it is assured that the investment can be made within the ceiling established for the applicant under the Voluntary Foreign Credit Restraint Program administered by the Board, and that the priorities established in that program are being followed.

Equity investments in developed countries of continental Western Europe will not, while the new provisions remain in effect, be approved by the Board, unless circumstances clearly demonstrate that the transaction will not be detrimental to the United States balance of payments.

All equity investments abroad by banks or Edge or Agreement corporations will, of course, continue to be considered as an extension of credit to foreigners for purposes of the Foreign Credit Restraint Program.

A copy of the amendment to Regulation K is enclosed; additional copies will be furnished upon request.

ALFRED HAYES,
President.

**CORPORATIONS DOING FOREIGN BANKING OR
OTHER FOREIGN FINANCING UNDER
THE FEDERAL RESERVE ACT**

AMENDMENTS TO REGULATION K

(12 CFR Part 211)

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

1. Effective February 8, 1968, § 211.8 is amended to read as follows:

**SECTION 211.8—INVESTMENTS IN SHARES OF OTHER
CORPORATIONS**

(a) **Specific consent.** Prior specific consent of the Board is required with respect to the acquisition of any shares by a Corporation, except as provided in the ninth paragraph of section 25(a) of the Act (relating to purchases of stock to prevent loss on debts previously contracted).

(b) **Conditions.** (1) Shares of stock in a corporation shall be disposed of as promptly as practicable if (i) such corporation should engage in the business of underwriting, selling, or distributing securities in the United States or (ii) the Corporation is advised by the Board that their holding is inappropriate under section 25(a) of the Act or this part.

(2) In computing the amount which may be invested in the shares of any corporation under section 25(a) of the Act, there shall be included any such investments in other corporations controlled by such corporation. Unless otherwise specified, "shares" in this section include any rights to acquire shares, except that prior Board consent is not required for the acquisition and exercise of stock rights in lieu of dividends which are declared on shares already held by a Corporation and which do not result in an increase in percentage ownership of the corporation.

(c) **Reports.** A Corporation shall inform the Board through the Federal Reserve Bank of its district within thirty days after the close of each quarter with respect to any acquisition or disposition of shares during that quarter, including the following information concerning any corporation whose shares it acquired for the first time (unless previously furnished): (1) Recent balance sheet and income statement, (2) brief descriptions of the corporation's business (including full information concerning any such business transacted in the United States), the shares acquired, and any related credit transaction, (3) lists of directors and principal officers (with address and principal business affiliation of each) and of all shareholders (known to the issuing corporation) holding 10 per cent or more of any class of the corporation's shares (and the amount held by each), and (4) information concerning the rights and privileges of the various classes of shares outstanding.

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