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# FEDERAL RESERVE BOARD

WASHINGTON

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W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

June 20, 1919.

X-1590

SUBJECT: Form of agreement required by the Federal Reserve Board of Foreign Banking Corporations as a condition precedent to the purchase of their stock by National banks under the provisions of Section 25, of the Federal Reserve Act.

Dear Sir:

The Board desires to express to you its appreciation of your prompt compliance with ~~the~~ request to have a representative attend the conference held in Washington on June 18th for the purpose of discussing generally the terms of the agreement with the various foreign banking corporations.

The conference proved to be a most interesting one, and as a result the Board has formulated the enclosed draft of agreement, to be generally uniform with respect to all such corporations. It will be noted that the modifications are of a minor character.

It is requested that you submit the revised form of agreement to your officers and directors at your ~~early~~ convenience, and if satisfactory to them, advise the Board of your formal acceptance thereof, which you will signify by executing and forwarding to the Board an agreement in the form herewith transmitted. Upon receipt of the new agreement it will be substituted for the one now on file with the Board.

Very truly yours,

Governor.

SENT TO BANKS & CORPORATIONS DOING BUSINESS IN FOREIGN COUNTRIES  
UNDER THE SUPERVISION OF THE FEDERAL RESERVE BOARD.

Form of Agreement required by the Federal Reserve Board of Foreign Banking Corporations as a Condition Precedent to the Purchase of their Stock by National Banks under the Provisions of Section 25 of the Federal Reserve Act.

A. GENERAL:

In order to enable you and other corporations of the same character to compete effectively in foreign countries, it is necessary that latitude be given in the development of business abroad, and the Board believes that, for the present at least, restrictions should not be rigid or too much in detail, and that it is desirable to prescribe only general rules for your guidance. As occasion required, the Board will modify its regulations in such manner as experience may prove to be necessary.

B. POWERS:

1. In the United States:

a. Deposits: It is clear that in order to avoid competition in the matter of receiving deposits with national banks and state banks, which do not enjoy the wide powers which you must necessarily possess in order to compete successfully in foreign countries, you should not be permitted in the United States to receive individual deposit accounts or domestic bank exchange or collection accounts. You will be permitted, however, to receive any deposit which is incidental to, or for the purpose of, carrying out transactions in foreign countries or dependencies of the United States, where you have established agencies, branches, or business connections. Deposits of this character may be made by individuals, firms, corporations or banks, whether foreign or domestic, and may be time deposits or on demand.

Reserves: It will be required that, against all such deposits received in the United States, you maintain a reserve in the amount required by law against such deposits of member banks located in central reserve cities. The Federal Reserve Banks are authorized, for purposes of clearing or collection, to receive deposits from non-member banks, and your reserve against domestic deposits may be maintained by opening a clearing account with the Federal Reserve Bank of your district, where an adequate balance may be carried by you.

b. Acceptances:

In the matter of acceptance of drafts and bills of exchange, the Board has concluded that you should be authorized to accept for all transactions permissible to member banks under the provisions of the Federal Reserve Act, provided that you make no

acceptance for account of any one drawer in an amount aggregating at any time in excess of ten per centum of your subscribed capital and surplus, unless the transaction be fully secured, or represents an exportation or importation of merchandise and is guaranteed by a bank or banker of undoubted solvency; and provided that whenever the aggregate of your acceptances outstanding at any time (a) exceeds the amount of your subscribed capital and surplus, fifty per centum of all acceptances in excess of such amount shall be fully secured, or (b) exceeds twice the amount of your subscribed capital and surplus, all acceptances outstanding in excess of such amount shall be fully secured, whichever of said two requirements shall call for the smaller amount of secured acceptances; and provided further that in no event shall the aggregate of all your acceptances outstanding, plus the total of all deposits held by you, whether foreign or domestic, exceed six times the amount of your subscribed capital and surplus, except with the approval of the Federal Reserve Board.

Reserves:

It must be understood, furthermore, that against all acceptances outstanding you will maintain a reserve of at least fifteen per centum in liquid assets, which shall consist of:

1. Cash;
2. Balances with other banks;
3. Bankers' acceptances; and / or
4. Such securities as the Board may, from time to time, permit.

2. In foreign countries.

You are authorized to accept deposits of any kind from banks, individuals and corporations in foreign countries, and generally to exercise such powers and to do such things as are incidental to banking conducted in the countries and dependencies in which you may transact business. The Board assumes however that in the matter of receiving deposits, making loans, and in all other business conducted in foreign countries, you will be guided primarily by the laws of those countries and by sound business judgment and banking principles. While the Board will not require you to carry abroad cash reserves against deposits abroad, should it appear at any time that your business methods are such as to afford insufficient protection, the Board will formulate such restricting regulations as may be proper in the circumstances.

C. REPORTS AND EXAMINATIONS:

1. You will be required to make two reports annually to the Federal Reserve Board, covering such details as may be prescribed.
2. You will also be subject to such examinations as the Board may order, these examinations to be made either by employees or agents of the Board or of the Federal Reserve Bank of your district.