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March 23, 1920

X-1863

The Federal Reserve Board issues herewith its rules and regulations, of which this circular is a part, governing the organization and operation of Corporations under the provisions of Section 25 (a) of the Federal Reserve Act.

Section 25 of the Federal Reserve Act, as amended by the Act of September 7, 1916, authorized national banks having a capital and surplus of \$1,000,000 or more to invest, under certain circumstances, in the stock of banks or corporations chartered or incorporated under the laws of the United States or of any State thereof, and principally engaged in international or foreign banking. At that time, however, Congress had not provided any means for the Federal incorporation of foreign banking corporations in whose stock it expressly authorized national banks to invest. In the enactment of Section 25 (a) of the Federal Reserve Act, approved December 24, 1919, Congress has now provided a means for the incorporation of institutions for the purpose of engaging in international or foreign banking or other international or foreign financial operations in whose stock national banks, as well as individuals, firms and other corporations, may invest.

While the public discussions of the purpose of this law have emphasized the fact that it is to permit American investors by means of Federal corporations to assist in the reconstruction of Europe at a time when such assistance is most vitally needed, nevertheless, the real purpose is a broader one, that is, to provide for the establishment of a Federal system of international banking or financial corporations operating under Federal supervision with powers sufficiently broad to enable them effectively to compete with similar foreign institutions and to afford to the American exporter and importer at all times a possible means of financing his foreign business. Although it is true that the immediate effect of the operation of Corporations under the terms of this section may be greatly to aid in the extension of much needed long term credits to Europe, that effect is in reality only one incident to the permanent development of the American export market.

Congress being mindful of the unusual powers conferred by this section has placed upon the Federal Reserve Board the responsibility of making such regulations and restrictions as may be necessary to insure the conservative and prudent management of Corporations chartered under its provisions and to safeguard as far as possible the interests of the public with whom they may do business. The Federal Reserve

Board therefore, while realizing the importance of making its regulations sufficiently liberal to enable Corporations operating under them effectively to compete with foreign institutions or State institutions doing a foreign business, has been impelled by the ordinary principles of banking prudence to impose restrictions which it believes will ultimately do much to command the prestige and public confidence upon which must depend the success of every Corporation of this character.

It is realized by the Federal Reserve Board that the organization and operation of these Corporations involve new principles and new fields of effort and that experience may demonstrate that the regulations promulgated herewith are in some respects too restrictive and in other respects too liberal. The Federal Reserve Board, therefore, in order to permit of the development of operations under the terms of this section in the manner contemplated by Congress, reserves the right from time to time to amend its regulations in such manner as experience and changing conditions may dictate.

W.P.G. HARDING,

Governor.

W.T. CHAPMAN,
Secretary.

REGULATION
SERIES OF 1920.BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN
BANKING BUSINESS UNDER THE TERMS OF SECTION 25 (a)
OF THE FEDERAL RESERVE ACT.I. Organization.

Any number of natural persons, not less in any case than five, may form a Corporation * under the provisions of Section 25 (a) for the purpose of engaging in international or foreign banking or other international or foreign financial operations or in banking or other financial operations in a dependency or insular possession of the United States either directly or through the agency, ownership or control of local institutions in foreign countries or in such dependencies or insular possessions.

II. Articles of Association.

Any persons desiring to organize a corporation for any of the purposes defined in Section 25 (a) shall enter into articles of association (see Federal Reserve Board Form 151 which is suggested as a satisfactory form of articles of association) which shall specify in general terms the objects for which the Corporation is formed, and may contain any other provisions not inconsistent with law which the Corporation may see fit to adopt for the regulation of its business and the conduct of its affairs. The articles of association shall be signed by each person intending to participate in the organization of the corporation and when signed shall be forwarded to the Federal Reserve Board in whose office they shall be filed.

III. Organization Certificate .

All of the persons signing the articles of association shall under their hands make an organization certificate (Federal Reserve Board Form 152) which shall state specifically:

First: The name assumed by the Corporation.

Second: The place or places where its operations are to be carried on.

*Whenever these regulations refer to a Corporation spelled with a capital C, they relate to a corporation organized under Section 25(a) of the Federal Reserve Act.

Third: The place in the United States where its home office is to be located.

Fourth: The amount of its capital stock and the number of shares into which it shall be divided.

Fifth: The names and places of business or residences of persons executing the organization certificate and the number of shares to which each has subscribed.

Sixth: The fact that the certificate is made to enable the persons subscribing the same and all other persons, firms, companies and corporations who or which may thereafter subscribe to or purchase shares of the capital stock of such Corporation to avail themselves of the advantages of this section.

The persons signing the organization certificate shall acknowledge the execution thereof before a judge of some court of record or notary public who shall certify thereto under the seal of such court or notary. Thereafter the certificate shall be forwarded to the Federal Reserve Board to be filed in its office.

IV. Title

Inasmuch as the name of the Corporation is subject to the approval of the Federal Reserve Board a preliminary application, for that approval should be filed with the Federal Reserve Board on Federal Reserve Board Form 150. This application should state merely that the organization of a corporation under the proposed name is contemplated and may request the approval of that name and its reservation for a period of thirty days. No Corporation which issues its own bonds, debentures or other such obligations will be permitted to have the word "bank" as a part of its title. No Corporation which has the word "Federal" in its title will be permitted also to have the word "bank" as a part of its title. So far as possible the title of the Corporation should indicate the nature or reason of the business contemplated and should in no case resemble the name of any other corporation to the extent that it might result in misleading or deceiving the public as to its identity, purpose, connections or affiliations.

V. Authority to Commence Business

After the articles of association and organization certificate have been made and filed with the Federal Reserve Board, and after they have been approved by the Federal Reserve Board and a preliminary permit to begin business has been issued by the Federal Reserve Board, the association shall become and be a body corporate but none of its powers except such as are incidental and preliminary to its organization shall be exercised until it has been formally authorized by the Federal Reserve Board by a final permit generally to commence business.

Before the Federal Reserve Board will issue its final permit to commence business, the president or cashier, together with at least three of the directors must certify (a) that each director elected is a citizen of the United States; (b) that a majority of the shares of stock is owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States, and (c) that of the authorized capital stock specified in the articles of association at least 25 per centum has been paid inⁱⁿ cash and that each shareholder has individually paid in in cash at least 25 per centum of his stock subscription. Thereafter the cashier shall certify to the payment of the remaining installments as and when each is paid in, in accordance with law.

VI. Capital Stock.

No Corporation may be organized under the terms of Section 25 (a) with a capital stock of less than \$2,000,000. The par value of each share of stock shall be specified in the articles of association and no Corporation will be permitted to issue stock of no par value. If there is more than one class of stock the name and amount of each class and the obligations, rights and privileges attaching thereto shall be set forth fully in the articles of association. Each class of stock shall be so named as to indicate to the investor as nearly as possible what is its character and to put him on notice of any unusual attributes.

VII. Transfers of Stock

Section 25 (a) provides in part that:

"A majority of the shares of the capital stock of any such corporation shall at all times be held and owned by the citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies, the controlling interest in which is owned by citizens of the United States."

In order to insure compliance at all times with the requirements of this provision after the organization of the Corporation, shares of stock shall be issuable and transferable only on the books of the Corporation upon approval of its board of directors. Every application for the issue or transfer of stock shall be accompanied by an affidavit of the person to whom it is desired to issue or transfer stock stating:-

In the case of an individual:

(a) Whether he is or is not a citizen of the United States and if a citizen of the United States, whether he is a natural born citizen or a citizen by naturalization, and if naturalized, whether he remains for any purpose in the allegiance of any foreign sovereign or state; (b) Whether there is or is not any arrangement under which he is to hold the shares or any of the shares which he desires to have issued or transferred to him, in trust for or in any way under the control of any foreign state or any foreigner, foreign corporation or any corporation under foreign control, and if so, the nature thereof.

In the case of a corporation:

(a) Whether such corporation is or is not chartered under the laws of the United States or of a state of the United States. If it is not, no further declaration is necessary, but if it is, it must also be stated; (b) Whether the controlling interest in such corporation is or is not owned by citizens of the United States, and whether there is or is not any arrangement under which such corporation will hold the shares or any of the shares if issued or transferred to such corporation, in trust for or in any way under the control of any foreign state or any foreigner or foreign corporation or any corporation under foreign control, and if any such arrangement exists, the nature thereof, and (c) Whether such corporation is subject to the control of any foreign state or foreigner or foreign corporation or corporations under foreign control and if so, in what manner and to what extent.

In the case of a firm or company:

(a) Whether the controlling interest in such firm or company is or is not owned by citizens of the United States and whether there is or is not any arrangement under which such firm or company will hold the shares or any of the shares if issued or transferred to such firm or company in trust for or in any way under the control of any foreign state or any foreigner or foreign corporation or any corporation under foreign control and if such arrangement exists, the nature thereof, and (b) Whether such firm or company is or is not subject to the control of any foreign state or foreigner or foreign corporation or corporation under foreign control, and if so, in what manner and to what extent.

The Board of directors may in any case before making any issue or transfer of stock, require such further evidence as in their discretion they may think necessary in order to determine whether or not the issue or transfer of the stock would result in a violation of the law. The Board of directors of the Corporation shall refuse to issue or transfer any stock the issue or transfer of which would cause fifty per cent or more of the total amount of stock issued or outstanding to be held contrary to the provisions of the law or these regulations. The decision of the board of directors in each case shall be final and conclusive and not

subject to any question by any person, firm or corporation on any ground whatsoever.

If at any time by reason of the fact that the holder of any shares of the corporation ceases to be a citizen of the United States, or, in the opinion of the board of directors, becomes subject to the control of any foreign state or foreigner or foreign corporation or corporation under foreign control, fifty per cent or more of the total amount of capital stock issued or outstanding is held contrary to the provisions of the law or these regulations, the board of directors may, when apprised of that fact, forthwith serve on the holder of the shares in question a notice in writing requiring such holder within two months to transfer such shares to a citizen of the United States, or to a firm, company or corporation approved by the board of directors as an eligible stockholder. When such notice has been given by the board of directors the shares of stock so held shall cease to confer any vote until they have been transferred as required above and if on the expiration of two months after such notice the shares shall not have been so transferred, the shares shall be forfeited to the Corporation.

The board of directors shall prescribe in the by-laws of the Corporation appropriate regulations for the registration of the shares of stock in accordance with the terms of the law and the regulations. The by-laws must also provide that the certificates of stock issued by the corporation shall contain provisions sufficient to put the holder on notice of the terms of the law and the regulations of the Federal Reserve Board defining the limitations upon the rights of transfer.

VIII. Operations in the United States

No Corporation shall carry on any part of its business in the United States except such as shall be incidental to its international or foreign business. Agencies may be established in the United States with the approval of the Federal Reserve Board for specific purposes, but not generally to carry on the business of the Corporation.

IX. Investments in the stock of other corporations.

It is contemplated by the law that a Corporation shall conduct its business abroad either directly or indirectly through the ownership or control of corporations and it is accordingly provided that a Corporation may invest in the stock, or other certificates of ownership, of any other corporation organized -

- (a) Under the provisions of Section 25 (a) of the Federal Reserve Act;
- (b) Under the laws of any foreign country or a colony or dependency thereof;
- (c) Under the laws of any State, dependency, or insular possession of the United States.

provided, first, that such other corporation is not engaged in the general business of buying or selling goods, wares, merchandise, or commodities in the United States; and second, that it is not transacting any business in the United States except such as is incidental to its international or foreign business.

Except with the approval of the Federal Reserve Board, no Corporation shall invest more than 15 per cent of its capital and surplus in the stock of any corporation engaged in the business of banking, or more than 10 per cent of its capital and surplus in the stock of any other kind of corporation.

No Corporation shall purchase any stock in any other corporation organized under the terms of Section 25 (a) or under the laws of any State, which is in substantial competition therewith, or which holds stock or certificates of ownership in corporations which are in substantial competition with the purchasing Corporation. This restriction however, does not apply to corporations organized under foreign laws.

X. Branches

No Corporation shall establish any branches except with the approval of the Federal Reserve Board and in no case shall any branch be established in the United States.

XI. Issue of Debentures, Bonds and Promissory Notes

Approval of the Federal Reserve Board: No Corporation shall make any public or private issue of its debentures, bonds, notes or other such obligations without the approval of the Federal Reserve Board, but this restriction shall not apply to notes issued by the Corporation in borrowing from banks or bankers for temporary purposes not to exceed one year. The approval of the Federal Reserve Board will be based solely upon the right of the Corporation to make the issue under the terms of this regulation and shall not be understood in any way to imply that the Federal Reserve Board has approved or passed upon the merits of such obligations as an investment. The Federal Reserve Board will consider the general character and scope of the business of the corporation in determining the amount of debentures, bonds, notes or other such obligations of the Corporation which may be issued by it.

Application: Every application for the approval of any such issue by a Corporation shall be accompanied by (1) a statement of the condition of the Corporation in such form and as of such date as the Federal Reserve Board may require; (2) a detailed list of the securities by which it is proposed to secure such issue, stating their maturities, endorsements, guaranties or collateral, if any, and in general terms the nature of the transaction or transactions upon which they were based, and (3) such other data as the Federal Reserve Board may from time to time require.

Advertisements: No circular, letter, or other document advertising the issue of the obligations of a Corporation shall state or contain any reference to the fact that the Federal Reserve Board has granted its approval of the issue to which the advertisement relates. This requirement will be enforced strictly in order that there may be no possibility of the public's misconstruing such a reference to be an approval by the Federal Reserve Board of the merits or desirability of the obligations as an investment.

XII. Sale of Foreign Securities

Approval of the Federal Reserve Board. No Corporation shall offer for sale any foreign securities with its endorsement or guaranty, except with the approval of the Federal Reserve Board, but such approval will be based solely upon the right of the Corporation to make such a sale under the terms of this regulation and shall not be understood in any way to imply that the Federal Reserve Board has approved or passed upon the merits of such securities as an investment.

Application. Every application for the approval of such sale shall be accompanied by a statement of the character and amount of the securities proposed to be sold, their endorsements, guaranties or collateral, if any, and such other data as the Federal Reserve Board may from time to time require.

Advertisements: No circular, letter or other document advertising the sale of foreign securities by a Corporation with its endorsement or guaranty shall state or contain any reference to the fact that the Federal Reserve Board has granted its approval of the sale of the securities to which the advertisement relates.

XIII. Acceptances.

Kinds: Any Corporation may accept drafts and bills of exchange drawn upon it which grow out of transactions of the kinds which form the basis of eligible bankers acceptances under the terms of Section 13 of the Federal Reserve Act, provided, however, that except with the approval of the Federal Reserve Board and subject to such limitations as it may prescribe no Corporation shall exercise its power to accept drafts or bills of exchange if at the time such drafts or bills are presented for acceptance it has outstanding any debentures, bonds, notes, or other such obligations issued by it.

Maturity: No Corporation shall accept any draft or bill of exchange with a maturity in excess of six months except with the approval of the Federal Reserve Board.

Limitations: (1) Individual drawers:- No acceptances shall be made for the account of any one drawer in an amount aggregating at any time in excess of 10% of the subscribed capital and surplus of the Corporation, unless the transaction be fully secured or represents an exportation or importation of commodities and is guaranteed by a bank or banker of undoubted solvency. (2) Aggregates: Whenever the aggregate of acceptances outstanding at any time (a) exceeds the amount of the subscribed capital and surplus, 50% of all the acceptances in excess of the amount shall be fully secured, or (b) exceeds twice the amount of the subscribed capital and surplus, all the acceptances outstanding in excess of such amount shall be fully secured. (The Corporation shall elect whichever requirement (a) or (b) calls for the smaller amount of secured acceptances).

Reserves: Against all acceptances outstanding which mature in thirty days or less a reserve of at least 15% per centum shall be maintained, and against all acceptances outstanding which mature in more than thirty days a reserve of at least 3% per centum shall be maintained. Reserves against acceptances must be in liquid assets of any or all of the following kinds: (1) cash; (2) balances with other banks; (3) bankers acceptances, and (4) such securities as the Board may from time to time permit.

XIV. Deposits.

In the United States: No Corporation shall receive in the United States any deposits except such as are incidental to or for the purpose of carrying out transactions in foreign countries or dependencies of the United States where the Corporation has established agencies, branches, or where it operates through the ownership or control of subsidiary corporations. Deposits of this character may be made by individuals, firms, banks or other corporations, whether foreign or domestic, and may be time deposits or on demand.

Outside the United States: Outside the United States a Corporation may receive deposits of any kind from individuals, firms, banks or other corporations unless such Corporation has any of its bonds, debentures, or other such obligations outstanding. In that event it may receive abroad only such deposits as are permitted in the United States. (See above)

Reserves: Against all deposits received in the United States a reserve of not less than 13% must be maintained. This reserve may consist of cash in vault, a balance with the Federal reserve bank of the district in which the head office of the Corporation is located, or a balance with any member bank. Against

all deposits received abroad the Corporation shall maintain such reserves as may be required by local laws and by the dictates of sound business judgment and banking principles.

XV. General Limitations and Restrictions

Liabilities of one Borrower: The total liabilities to a Corporation of any person, company, firm or corporation for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed 10 per centum of the amount of its paid-in capital and surplus, except with the approval of the Federal Reserve Board, provided, however, that the discount of bills of exchange drawn in good faith against actually existing values and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as money borrowed within the meaning of this paragraph. The liability of a customer on account of an acceptance made by the Corporation for his account is not a liability for money borrowed within the meaning of this paragraph unless and until he fails to place the Corporation in funds to cover the payment of the acceptance at maturity or unless the Corporation itself holds the acceptance.

Aggregate Liabilities of the Corporation: The aggregate of the Corporation's liabilities outstanding on account of acceptances, average deposits domestic and foreign, debentures, bonds, notes, guaranties, endorsements and other such obligations shall not exceed at any one time ten times the amount of the Corporation's subscribed capital and surplus except with the approval of the Federal Reserve Board. In determining the amount of the liabilities within the meaning of this paragraph, endorsements of bills of exchange having not more than six months to run, drawn and accepted by others than the Corporation, shall not be included.

Operations Abroad: Except as otherwise provided in the law and these regulations, a Corporation may exercise abroad not only the powers specifically set forth in the law but also such incidental powers as may be usual in the determination of the Federal Reserve Board in connection with the transaction of the business of banking or other financial operations in the countries in which it shall transact business. In the exercise of any of these powers abroad a Corporation must be guided by the laws of the country in which it is operating and by sound business judgment and banking principles.

XVI. Management

The directors, officers or employees of a Corporation shall exercise their rights and perform their duties as directors, officers, or employees with due regard to both the letter and the spirit of the law and these regulations. For the purpose of these regulations the Corporation shall, of course, be responsible for all acts of omission or commission of any of its directors, officers, employees or representatives in the conduct of their official duties. The character of the management of a Corporation and its general attitude towards the purpose and spirit of the law and these regulations will be considered by the Federal Reserve Board in acting upon any application made under the terms of these regulations.

XVII. Reports and Examinations

Reports. Each Corporation shall make at least two reports annually to the Federal Reserve Board at such times and in such form as it may require.

Examinations. Each Corporation shall be examined at least once a year by examiners appointed by the Federal Reserve Board. The cost of examinations shall be paid by the Corporation examined.

XVIII. Amendments to Regulations

These regulations are subject to amendment by the Federal Reserve Board from time to time, provided, however, that no such amendment shall prejudice obligations undertaken in good faith under regulations in effect at the time they were assumed.