

SCHWARTZ & BALLEN
1990 M STREET, N.W. · SUITE 500
WASHINGTON, DC 20036-3418

(202) 776-0700

FACSIMILE
(202) 776-0720

MEMORANDUM

October 19, 2001

To: Our Clients and Friends

Re: Regulation K – International Banking Operations

The Federal Reserve Board (“Board”) has approved extensive changes to Regulation K, which governs international banking operations of U.S. banking organizations operating overseas and foreign banks operating in the U.S. These amendments are effective in late November (thirty days after publication in the Federal Register). In addition, the Federal Reserve Board is requesting comments on proposed revisions to its rules relating to international lending supervision. Comments are to be submitted by December 1.

Final Rule

In December 1997 the Board concluded a comprehensive review of Regulation K and requested comments on its proposed revisions. The enactment of the Gramm-Leach-Bliley Act (“GLB”) caused the Board to reexamine its proposed revisions to Regulation K in light of the expanded authority available to financial holding companies under GLB. This final rule is a result of this reexamination and the comments received on its proposed 1997 revisions.

The final rule:

- applies a two-tier test tied to the capital of the parent bank and the Edge corporation for limitations applicable to Edge corporations
- streamlines foreign branching procedures for U.S. banking organizations by, among other things, reducing prior notice to 30 days
- expands permissible foreign government securities trading activities by foreign branches of U.S. banks to obligations of governments other than the host government, provided that the obligations are of investment grade

- expands permissible equity underwriting activities for foreign subsidiaries of well-capitalized and well-managed U.S. banking organizations by removing the existing dollar limits and providing that such activities be limited to percentages of the investor's or its parent bank's tier 1 capital
- increases the limits on dealing in shares of a single issuer to \$40 million from \$30 million and permits netting of positions based on internal models
- expands general consent authority for well-capitalized and well-managed U.S. banking organizations by eliminating absolute dollar limits and basing general consent limits on a percentage of tier 1 capital
- amends debt/equity swaps authority to define "eligible countries" as "countries with currently impaired sovereign debt"
- implements authority allowing member banks to invest, with the Board's approval, up to 20 percent of capital and surplus in the stock of Edge and agreement corporations
- streamlines the application procedures applicable to foreign banks seeking to expand operations in the United States
- liberalizes provisions regarding the qualification of foreign banking organizations for exemptions from the nonbanking prohibitions of the Bank Holding Company Act
- implements provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 that affect foreign banks including revisions to "home state" requirements for foreign banks
- revises rules governing investments and participation in Export Trading Companies by bank holding companies and other eligible investors

International Lending Supervision

The Board is also soliciting comment on a proposed revision to its rules relating to international lending. This revision would eliminate requirements as to the particular accounting method to be followed in accounting for fees on international loans and to require instead that institutions follow Generally Accepted Accounting Procedures in accounting for such fees. Similar changes were previously adopted by the Federal Deposit Insurance Corporation and the Comptroller of the Currency. The Board is also requesting comments on the use of "plain language" in the proposed rule in order to make it easier to understand.

Please call us if you have any questions. The text of the Board's final rule and request for public comment are available on the What's New page of our web site (www.schwartzandballen.com).