FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429
Division of Supervision

Foreign Banking Activities

FIL-41-98
April 15, 1998

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *FDIC Adopts Final Regulation to Consolidate and Update Rules for Foreign Banking Activities (Part 347 of the FDIC's Rules and Regulations)*

The FDIC Board of Directors has adopted a new regulation that consolidates, updates and streamlines rules that apply to foreign banking operations. The FDIC's international rules, which had been on the books since 1979 without significant revision, were divided into three separate parts. Those rules will be consolidated into one regulation, Part 347. Under the new Part 347, state nonmember banks will be able to compete more effectively abroad.

The new regulation, which is attached, will take effect on July 1, 1998. Banks may elect to voluntarily comply with it on May 8, 1998.

The new Part 347 reduces filing requirements for most banks wishing to open a foreign branch or make a foreign investment. Well-run, well-capitalized institutions with no enforcement actions pending against them that meet certain other criteria may utilize the FDIC's "general consent" when initiating new activities abroad. This means an eligible institution can presume to have the FDIC's approval to engage in certain activities. The institution is required to notify the FDIC after new operations begin. Alternatively, well-run, well-capitalized institutions ineligible to proceed under the presumption of general consent can now take advantage of expedited processing for their applications.

The Board has defined permissible activities that bank branches, foreign joint ventures and subsidiaries may engage in, within specific dollar limits. The new regulation reflects statutory requirements that a foreign banking organization's retail deposit-taking activities in the United States be conducted through an insured bank subsidiary, not an insured branch. Under the new Part 347, quarterly, not semiannual, calculations and reporting are required for pledged assets that apply to the deposit activities of insured branches.

Other key aspects of Part 347 follow. The new regulation:

- Eliminates a general limit on foreign investment of 25 percent of capital. New investment limitations are associated with specific types of activities. The regulation also includes procedures for requesting modifications to the limits.

- Permits a bank's foreign branch to underwrite, distribute and deal, invest in and trade obligations of any foreign government, rather than just the obligations of the country in which it is located. Banks may also invest directly in foreign organizations that are not banks.

- Simplifies accounting for fees on international loans. Instead of requiring specific accounting procedures, the new rule directs banks to follow generally accepted accounting principles (GAAP).

- Requires banks to either establish reserves to account for transfer risk in international assets or use an alternative method consistent with GAAP.

For further information, please contact the following in the Division of Supervision: Christopher Spoth, Assistant Director, at (202) 898-6611, Karen Walter, Chief, at (202) 898-3540, or Suzanne Williams, Senior Financial Analyst, at (202) 898-6788; or in the Legal Division, Jamey Basham, Counsel, at (202) 898-7265, or Wendy Sneff, Counsel, at (202) 898-6865.

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Director

Attachment:

April 8 Federal Register, pages 17056-17090

Distribution: FDIC-Supervised Banks (Commercial and Savings)

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