

**Supporting Statement for the  
International Applications and Prior Notifications under  
Subparts A and C of Regulation K  
(FR K-1; OMB No. 7100-0107)**

**Summary**

The Board of Governors of the Federal Reserve System (Board), under delegated authority from the Office of Management and Budget (OMB), has extended for three years, with revision, the International Applications and Prior Notifications under Subparts A and C of Regulation K (FR K-1; OMB No. 7100-0107). Subpart A of Regulation K - International Banking Operations governs the foreign investments and activities of member banks, Edge and agreement corporations,<sup>1</sup> bank holding companies (BHCs), and certain investments by foreign organizations. Subpart C of Regulation K governs investments in export trading companies. The FR K-1 information collection contains the following eleven attachments for the application and notification requirements embodied in Subparts A and C of Regulation K:

- Attachment A Notification to Establish Initial Foreign Branches of Member Banks, Edge Corporations, or Foreign Subsidiaries (section 211.3(b)(2) of Regulation K) or Application for Branches to Engage in New Activities (section 211.4(b) of Regulation K)
- Attachment B Notification to Establish Additional Foreign Branches of Member Banks, Edge Corporations, or Foreign Subsidiaries (section 211.3(b)(3) of Regulation K)
- Attachment C Application to Establish, Acquire, or Change Control of an Edge Corporation (section 211.5 of Regulation K), or for an Edge Corporation to Engage in Certain Domestic Activities (section 211.6(b) of Regulation K)
- Attachment D Model Articles of Association for an Edge Corporation (section 211.5 of Regulation K)
- Attachment E Model Organization Certificate for an Edge Corporation (section 211.5 of Regulation K)
- Attachment F Notification to Establish a Domestic Branch of an Edge Corporation (section 211.5(f) of Regulation K)
- Attachment G Application to Amend Articles of Association of an Edge Corporation (section 211.5(c) of Regulation K)
- Attachment H Application to Invest in Other Foreign Organizations (sections 211.4(a)(8) and 211.9(g) of Regulation K) or to Engage in New Foreign Activities (section 211.10(c) of Regulation K) for Member Banks, Edge or Agreement Corporations, and BHCs
- Attachment I Notification to Invest in Other Foreign Organizations for Member Banks, Edge or Agreement Corporations, and BHCs (section 211.9(f) of Regulation K)

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<sup>1</sup> References to Edge corporations are inclusive of agreement corporations. An agreement corporation is a corporation that has entered into an agreement with the Board that it will not exercise any power that is impermissible for an Edge corporation.

- Attachment J Application to Invest in Excess of Ten Percent of Capital and Surplus in Edge Corporations (section 211.5(h) of Regulation K)
- Attachment K Notification to Establish Export Trading Companies (section 211.34 of Regulation K)

The Board requires these applications for regulatory and supervisory purposes and to allow the Board to fulfill its statutory obligations under the Federal Reserve Act (FRA) and the Bank Holding Company Act of 1956 (BHC Act). The applications are event-generated and provide the Federal Reserve with information necessary to evaluate each of the proposed transactions.

The Board has revised the FR K-1 form and instructions primarily to make minor changes for improved style, grammar, and comprehension, and to harmonize the general information, certification, and confidentiality sections with other similar forms. No changes have been made to the information required in various attachments. The current annual burden for the FR K-1 is estimated to be 1,013 hours. Given that the proposed revisions are technical in nature, the estimated annual burden would remain unchanged.

## **Background and Justification**

Sections 25 and 25A of the FRA and sections 4(c)(13) and 4(c)(14) of the BHC Act govern the formation of Edge and agreement corporations and the international and foreign activities of U.S. banking organizations, including those of national banks, state member banks, and BHCs. Section 25 of the FRA authorizes the establishment of agreement corporations, foreign branches, and permits investments in foreign banks in accordance with regulations prescribed by the Federal Reserve. Section 25A of the FRA authorizes the establishment of Edge corporations and empowers these corporations to engage in activities both in the United States and abroad. Section 4(c)(13) of the BHC Act authorizes BHCs to invest in companies that do business abroad. Section 4(c)(14) of the BHC Act authorizes BHCs to invest in export trading companies.

Pursuant to these statutory provisions, the Board adopted various regulatory provisions, all of which have been consolidated in the Board's Regulation K, setting forth the procedures for making investments and engaging in activities under these statutes. These procedures include (1) a specific consent procedure, under which the banking organization may make the proposed investment or engage in the proposed activity only after receiving the Board's prior approval, (2) a notification procedure, under which the banking organization may make an investment after having given appropriate notice to the Board, and (3) a general consent procedure, under which the banking organization may make certain investments that may subsequently be reviewed during the examination process.

The various attachments to the FR K-1 instructions specify the information a company must include when submitting a Regulation K application or prior notice. The information required in the instructions pertains only to the specific investment or activity proposed. The information reported on the FR K-1 is not available from any other source.

## **Description of Information Collection**

A general description of each attachment is provided below.

### **Foreign Branches (Attachments A and B)**

The Notification to Establish Initial Foreign Branches of Member Banks, Edge Corporations, or Foreign Subsidiaries or Application for Branches to Engage in New Activities (Attachment A) requires information about the location of the proposed branch, and information needed to assess the purpose of the branch, its proposed activities, projected growth, management, country exposure, and capitalization.

The Notification to Establish Additional Foreign Branches of Member Banks, Edge Corporations, or Foreign Subsidiaries (Attachment B) is used if the applicant has branches in two or more countries and wishes to establish a branch in an additional country. The notification requires a description of the activities of the proposed branch and the branch's projected asset size at the end of the third year of operation.

### **Edge Corporations (Attachments C, D, E, F, and G)**

The Application to Establish, Acquire, or Change Control of an Edge Corporation or for an Edge Corporation to Engage in Certain Domestic Activities (Attachment C) requires slightly different information for each type of transaction. The application requires information on the proposed activities, proposed management, the ability to serve the convenience and needs of the community, and any related requests for investment authority, as well as projected balance sheets and income statements.

The application for Edge Corporations to Engage in Domestic Activities not Listed in Regulation K requires, in addition to projected balance sheets and income statements, information on the proposed activities, any related requests for investment authority, and the ability to serve the convenience and needs of the community. Foreign organizations seeking to either establish or acquire control of an existing Edge corporation also must furnish information relating to the home country supervision and regulation of the foreign organization, as well as information to determine whether the Federal Reserve will have adequate access to information. The notification for change in control of an Edge corporation requires much of the same information that is needed in an application to establish an Edge corporation.

The application to establish an Edge corporation requires submission of the Model Articles of Association for an Edge Corporation (Attachment D) and the executed Model Organization Certificate for an Edge Corporation (Attachment E), as prescribed by section 25A of the FRA.

The Notification to Establish a Domestic Branch of an Edge Corporation (Attachment F) requires information about the location and purpose of the proposed branch, its ability to serve the convenience and needs of the community, any amended articles of association, and the projected asset size of the branch at the end of the third year of operations.

The Application to Amend Articles of Association of an Edge Corporation (Attachment G) requires the Edge Corporation to submit an executed and dated certificate of amendment to the existing articles of association and a statement describing the reasons for the requested changes.

### **Investments in Other Foreign Organizations (Attachments H and I)**

The Application to Invest in Other Foreign Organizations or to Engage in New Foreign Activities for Member Banks, Edge or Agreement Corporations, and BHCs (Attachment H) requires slightly different information for each type of transaction. For applications to invest in other foreign organizations, a description of the proposed investment, financial information, country exposure information, and information on compliance with foreign requirements must be included. Additional information is required for investments in joint ventures, including the ownership structure, any contracts or agreements of support, and any impediments to the provision of information to U.S. regulators.

For applications to engage in foreign activities not previously determined to be permissible, required information includes a full description of the proposed activities, financial information, and information on compliance with foreign requirements. Similar to above, additional information is required for investments in joint ventures. Applicants seeking to engage in any activity that the Board has not previously determined to be of a banking or financial nature must discuss the extent to which such activity is usual in connection with the transaction of banking or other financial operations in the country in which the activity is to be conducted, supported by examples.

Investments that do not meet the criteria either for specific consent or for general consent, as detailed in section 211.9 of Regulation K (12 CFR 211.9), require prior notification. The Notification to Invest in Other Foreign Organizations for Member Banks, Edge or Agreement Corporations, and BHCs (Attachment I) requires information on the name and location of the investment, the amount of investment and percentage of ownership as a result of the investment, a description of proposed activities, abbreviated financial statements and, for joint ventures, the ownership structure and managerial support provided by the investor.

### **Invest in Excess of Ten Percent of Capital and Surplus in Edge Corporations (Attachment J)**

As a result of the enactment of the Economic Growth and Regulatory Paperwork Reduction Act of 1996, which amended the FRA, member banks may invest over 10 percent and up to 20 percent of their capital and surplus in Edge corporation subsidiaries, provided the Board determines that such investments are not unsafe and unsound. The Application to Invest in Excess of Ten Percent of Capital and Surplus in Edge Corporations (Attachment J) requires the information set forth in section 211.5 of Regulation K, including (1) the composition of the assets of the bank's Edge Corporation, (2) the total capital invested by the bank in its Edge Corporation when combined with retained earnings of the Edge Corporation (including amounts invested in and retained earnings of any foreign bank subsidiaries), (3) purpose of the investment, and (4) capital ratios for the bank that deconsolidate and deduct the aggregate investment in and

assets of all Edge Corporations and all foreign bank subsidiaries.

### **Investment in Export Trading Companies (Attachment K)**

The Notification to Establish an Export Trading Company (Attachment K) is essentially a modified version of Attachment H. It requires a briefer description of the proposed investment, financial information, and additional information for investments in joint ventures.

### **Proposed Revisions**

As indicated above, no items are being added to the required information. The Board has implemented minor revisions to the FR K-1 form. Primarily, the General Information and Instructions section of the form has been revised to make it similar to other application forms in terms of certification and confidentiality information. In addition, a statement that the Board prefers that applicants/notificants electronically submit the application/notification and that pre-filing option is available has been added. Other minor changes to the form include those to improve style, grammar, and comprehension, and to provide accurate citations and addresses.

### **Time Schedule for Information Collection**

The FR K-1 information collections are event generated and submitted by the applying or notifying organization, in accordance with the requirements embodied in Regulation K, to the Federal Reserve Bank designated as responsible for that banking organization.

### **Legal Status**

The collection of information is mandatory and collected pursuant to sections 25 and 25A of the Federal Reserve Act (12 U.S.C. 601-604(a) and 611-631) and sections 4(c)(13), 4(c)(14), and 5(c) of the Bank Holding Company Act (12 U.S.C. 1843(c)(13), 1843(c)(14), and 1844(c)). The information submitted in the FR K-1 is considered to be public unless an institution requests confidential treatment for portions of the particular application or notification. Applicants may rely on any Freedom of Information Act (FOIA) exemption, but such requests for confidentiality must contain detailed justifications corresponding to the claimed FOIA exemption. Requests for confidentiality must be evaluated on a case-by-case basis.

### **Consultation Outside the Agency**

On March 23, 2018, the Board published an initial notice in the *Federal Register* (83 FR 12761) requesting public comment for 60 days on the extension, with revision, of the FR K-1. The comment period for this notice expired on May 22, 2018. The Board did not receive any comments. The revisions will be implemented as proposed. On July 20, 2018, the Board published a final notice in the *Federal Register* (83 FR 34578).

## Estimate of Respondent Burden

The annual reporting burden for the FR K-1, shown in the following table, is based on the average number of applications and notifications filed during a typical year. These reporting requirements of the applications and notifications represent less than 1 percent of total Federal Reserve System paperwork burden for all reports.

<b>FR K-1</b>	<i>Number of respondents<sup>2</sup></i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Attachments				
A and B	5	2	11.5	115
C, D, E, F, and G	15	2	10	300
H and I	12	3	15.5	558
J	2	1	10	20
K	1	1	20	<u>20</u>
	<i>Total</i>			1,013

The total annual cost to the public for these reports is estimated to be \$56,779.<sup>3</sup>

## Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

## Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System of printing and mailing instructions is negligible.

<sup>2</sup> Of the respondents, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) [www.sba.gov/document/support-table-size-standards](http://www.sba.gov/document/support-table-size-standards).

<sup>3</sup> Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at \$18, 45% Financial Managers at \$69, 15% Lawyers at \$68, and 10% Chief Executives at \$94). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages May 2017*, published March 30, 2018, [www.bls.gov/news.release/ocwage.t01.htm](http://www.bls.gov/news.release/ocwage.t01.htm). Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/).