



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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DIVISION OF BANKING
SUPERVISION AND REGULATION

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**TO THE OFFICER IN CHARGE OF SUPERVISION AND EXAMINATION
STAFF AT EACH FEDERAL RESERVE BANK AND TO EACH
INTERNATIONALLY ACTIVE DOMESTIC BANKING
ORGANIZATION SUPERVISED BY THE FEDERAL RESERVE**

**SUBJECT: Guidance on Monitoring Compliance with the
Restrictions on Foreign Investments Contained in
Regulation K and Guidance for Internationally
Active Domestic Banking Organizations on
Recordkeeping Requirements Regarding Foreign
Investments**

The Federal Reserve has revised its reporting requirements with respect to foreign investments made by U.S. banking organizations pursuant to Subpart A of Regulation K. The Federal Reserve has replaced the FR 2064 report with the new FR Y-10, Report of Changes in Organizational Structure, and with new internal recordkeeping requirements for internationally active domestic banking organizations. The purpose of this letter is to provide guidance to both examiners and banking organizations regarding the new reporting requirements. In particular, this letter provides guidance to examiners on what should be reviewed during on-site examinations of internationally active domestic banking organizations. It also provides guidance on internal recordkeeping that is expected from domestic banking organizations going forward.

Background

Effective September 1, 2001, the Federal Reserve eliminated the collection of the FR 2064 report. This report historically was used by the Board to monitor international investments made by U.S. banking organizations and to fulfill the Board's supervisory responsibilities pursuant to Sections 211.8 - 211.10 of Regulation K (as per the final rule implementing Regulation K published in the *Federal Register* on October 26, 2001, and effective on November 26, 2001).¹ The FR 2064 report was the Federal Reserve's primary tool to monitor compliance with relevant sections of the Federal Reserve Act and Regulation K, including the general consent provisions of Regulation K.² The report collected information on changes in international investments made by member banks, Edge and agreement corporations, and bank holding companies. The report also was the only source of cost information for the Board regarding investments made under the general consent provisions of Regulation K. In 1995, the general consent authority was significantly expanded. As a consequence, greater importance was placed on monitoring the level of international investments in order to ensure compliance with relevant banking laws and regulations, and to ensure that banking organizations do not expose themselves to undue risk. In October 2001, the Board approved significant additional liberalizations in the Regulation K general consent authority, further increasing the importance of

monitoring international investments.

Although the FR 2064 report has been eliminated, examiners have a continuing need to monitor compliance with the Federal Reserve Act and Sections 211.8 - 211.10 of the revised Regulation K. Information previously collected in the FR 2064 report is now being collected partly through the new FR Y-10 and the FR Y-6 reports, and partly through a requirement that banking organizations maintain records of comparable information. Within 30 days of the transaction, banking organizations are required to report changes in investments (both foreign and domestic) on the FR Y-10 report. Investments of less than 25 percent of the voting shares of a foreign nonbanking company are not captured by the new FR Y-10 report.³ However, on an annual basis using the FR Y-6 report, banking organizations are required to report all investments, including those between 5 and 25 percent of voting shares.⁴ Structure and geographical information relating to foreign investments is now reported on the FR Y-10 and FR Y-6 for ongoing monitoring. During the examination process, examiners are expected to review investment amounts and activities.

Examiner Guidance

Generally, the portion of the examination dealing with Regulation K compliance should focus on confirming that investments made pursuant to the general consent provisions meet the restrictions on investment amount and activities contained in Sections 211.8 - 211.10 of Regulation K. Investments made under the general consent provisions of Regulation K can be sizeable and, thus, can pose significant risk to the banking organization. Examiners should keep in mind that the Board has the authority to rescind an organization's general consent investment privileges for various reasons, including safety and soundness concerns and noncompliance with the existing requirements of Regulation K.

Recordkeeping Requirements

Although the FR 2064 report will no longer be collected, internationally active U.S. banking organizations are still expected to maintain adequate internal records to allow examiners to review compliance with the investment provisions of Regulation K. For each investment made under Subpart A of Regulation K, records should be maintained regarding the type of investment, for example, equity (voting shares, nonvoting shares, partnerships, interests conferring ownership rights, participating loans), binding commitments, capital contributions, and subordinated debt; the amount of the investment; the percentage ownership; activities conducted by the company and the legal authority for such activities; and whether the investment was made under general consent, prior notice, or specific consent authority. With respect to investments made under general consent authority, information also must be maintained that demonstrates compliance with the various limits set out in Section 211.9 of Regulation K.

Information maintained by the banking organization should be made available to examination staff during the course of on-site examinations and pursuant to other supervisory requests. At this time, the Federal Reserve is not requiring that such information be maintained in a specific form. Regardless of form, recordkeeping must be adequate to permit examiners to determine compliance. Examiners are expected to review a sample of these investments to determine the accuracy of the

organization's records and compliance with the regulation.

This letter should be disseminated to internationally active U.S. banking organizations in your District, as well as the appropriate members of your Reserve Bank's examination staff. Should you have any questions regarding the guidance, please contact Betsy Cross, Deputy Associate Director, at (202) 452-2574.

Richard Spillenkothen
Director

Note:

1. These Sections previously were designated as Section 211.5 of Regulation K. [Return to text](#)
2. The Board has granted its general consent to U.S. banking organizations to make foreign investments without prior notice to the Board if the investment meets certain criteria. The criteria relate to whether the investment is in a subsidiary or a joint venture, or is a portfolio investment, and whether the investor is a bank holding company, a member bank, or an Edge or agreement corporation. [Return to text](#)
3. Regulation K authorizes portfolio investments in less than 20 percent of the shares of a foreign company regardless of the activities engaged in by that company. Under the new reporting regime, portfolio investments within the general consent limits will only be required to be reported on an annual basis on the FR Y-6 report. [Return to text](#)
4. Investments representing less than 5 percent ownership are not required to be reported. [Return to text](#)

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