

lish this type of operation is found in the amendment to section 25 and section 25(a) of the Federal Reserve Act.

Bank subsidiaries under these provisions may offer services similar to those offered through an international department of a commercial bank and may include branch operations. Unlike the parent banks, corporations formed under section 25(a) may engage in investment banking overseas. It is also through this legislative framework that banks are permitted to establish or purchase locally organized affiliates and to participate in minority ownership.

Agreement Corporations

The original intent of the authorization of the 1916 amendment to the Federal Reserve Act was to enable small banks to participate in overseas expansion through joint ownership of international banking corporations. Minimum capital requirements were placed at \$1 million. Chartering was possible only under State law, since no statutory authority was given for Federal charterings. Such State chartered corporations were required to enter into an agreement with the Federal Reserve Board to conduct their operations under its regulation and thus became known as "Agreement corporations." This form of international activity not only permitted smaller banks to enter the field, but also made it possible for U.S. interests—including individuals and other U.S. firms—to engage in banking activities not generally open to U.S. bank branches abroad.

A number of Agreement corporations were established through the early 1920's. Their popularity decreased later in the decade as international activity by banks declined. For the next 20 years, international operations took other forms.

Five Agreement corporations are currently in existence, the newest of which was organized in 1966. These have been established to engage in special functions or, as in the case of the oldest of these corporations, have assumed special functions. For example, one Agreement corporation operates as a national bank in the Virgin Islands, and a second as a trust subsidiary in the United Kingdom.

Edge Act Corporations

The great demand for international financing following World War I led to the enactment of section 25(a) of the Federal Reserve Act in 1919. This amendment provided for the incorporation of subsidiaries—both banking and investment—under national charter. Such corporations have been popularly called "Edge Act corporations" for the bill's sponsor, Senator Walter Edge. Minimum capital requirements were set at \$2 million. Authority was given for the establishment of foreign branches and prohibitions were imposed on engaging in domestic business. These restrictions on domestic business are retained today.

Early Edge Act corporations generally were identified with commercial banking rather than investment banking. The waning growth of international activity and the inexperience of management in the international field led to their heavy liquidation by the end of the 1920's. For the next two decades, there was virtually no activity by these corporations and only a handful retained their charter.

Renewed interest came during the post-World War II period when, in 1949, Bank of America established a banking corporation under the Edge Act in New York. Today, Edge Act corporations number close to 50.