

A considerably greater number of commercial banks have established international banking and finance corporations than have opened direct branches abroad. Approximately 30 banks have established Edge subsidiaries in the last 15 years. Location is not restricted to the home state of the parent bank and, consequently, a large number have their headquarters in New York, even though the parent bank is located elsewhere. The majority of these banks established both types of corporations; that is, banking as well as investment corporations, since the function of each type had been made separate and distinct by regulation.

The distinction between the two types of Edge Act corporations, banking and financing, was made less rigid through the 1963 revision of Regulation K of the Federal Reserve Board by permitting the integration of their activities. Where banks retain two corporations, the reason is historical, not legal. Newly organized corporations may engage in both types of activity with the only present distinction being between corporations engaged principally in international banking in New York City, and the others holding stocks in foreign banks and other institutions.

Corporations primarily engaged in banking perform many of the same functions as international departments, and they may maintain branches overseas. They are less restricted in their operations, however, since they can normally engage in banking practices not open to branches of commercial banks. It is through banking corporations, as defined under the Edge Act, that banks have been able to establish or purchase bank subsidiaries overseas, thus enabling them to enter countries where foreign branches are not permitted, or to purchase already established overseas facilities of foreign banks. Minority participations in commercial banks and participations in development banks are also effected through this device. Significantly, a revision to Regulation M, which governs operations of foreign branches, is currently under review which will permit national banks to invest directly in foreign banks, forgoing the necessity of working through this framework. Under the proposed revision, a national bank would be permitted to invest up to 25 percent of its capital and surplus in one or more foreign banks.

Edge Act corporations primarily engaged in financing take on a variety of different operations and are granted broad powers in underwriting and dealing in securities. They do not invest in corporations engaged in banking, although investments in other types of operations are permitted. Normally, ownership is not retained over the long term, and their interests are liquidated as these firms become more established.

SUMMARY

U.S. bank activities abroad have become widely diversified and extensive, particularly in the last 15 years. Channels include the traditional correspondent relationships, direct branching, and representative offices. Edge Act corporations and Agreement corporations, through which subsidiaries and affiliates have been established or acquired, have facilitated expansion into overseas markets. National and domestic regulations, as well as individual bank policy, have become the determinants of the scope and potential to which individual American banks expand their overseas operations.