

CHAPTER III

THE ESTABLISHMENT OF AMERICAN BANKING OPERATIONS ABROAD

The expansion of U.S. banks abroad is limited by the necessity of obtaining authorizations from U.S. regulatory authorities and local regulatory authorities in the host countries.

The difficulties in part relate to the type of operation contemplated; namely, direct branches, purchases of existing banks for conversion into branches, outright or controlling purchases in existing banks, and, finally, participations in a minority capacity with either other U.S. banks or foreign interests.

AUTHORITY TO OPERATE

In order for a U.S. bank to establish an operation abroad through direct branches or by investments, permission of the Board of Governors of the Federal Reserve System is required. In addition, in the case of national banks, there is a reporting responsibility to the Comptroller of the Currency.

In either case such authorization and reporting is required whether the operation is undertaken by a U.S. bank directly or through the medium of an Edge Act corporation or an Agreement corporation organized under section 25(a) of the Federal Reserve Act.

Federal Reserve approval apparently has not been an obstacle to the overseas expansion of U.S. banks, although the process of obtaining such approval has presented certain problems, particularly in those cases where delays in obtaining approval have created difficulties in carrying out negotiations with local authorities in host countries. Also, requirements for supporting data are often out of proportion to the underlying commitment contemplated.

The main obstacle to the overseas expansion of U.S. banks is the obtaining of local authorization. It should be recognized, however, that while this is the major obstacle, whether it be of a legal nature or a discretionary nature, it represents the attitude of the host country toward foreign banks.

As a foreign bank in a host country, it is reasonable to assume that U.S. banks would only consider an operation if they felt that the climate of the particular country assured them of a reasonable expectation of a successful banking operation. To attempt to force their way into a country through negotiation and the exertion of pressure would be untenable if there is general opposition from governmental and business sources. On the other hand, if such opposition originates from minority vested interests and lacks general support, a different circumstance would exist and it might be advantageous to seek to overcome this opposition through negotiation. In such cases, however, the decision to pursue negotiations should be left to the U.S. bank concerned, unless, of course, matters of the national interest of the United States are involved.