

CHAPTER IV

FOREIGN REGULATION OF AMERICAN BANKING OPERATIONS

Because of its critical impact in sensitive political and economic areas, commercial banking throughout much of the world has traditionally been the object of government control—often strict and detailed. This control is frequently intensified in times of stress, especially during war, inflationary periods, foreign exchange crises, and periods of payments strain. Methods and techniques vary from country to country because of institutional differences, but all regulatory actions are aimed at facilitating the administration of money and credit policy and, of course, maintaining standards of financial integrity.

Legislative banking control and central bank policy are usually applicable equally to domestic and foreign banks although there are exceptions, most generally in the area of unofficial arrangements. American banking operations abroad are, therefore, subject not only to U.S. regulations, including regulations K (foreign banking) and M (foreign branches) of the Federal Reserve Board, but also to those existing in the countries in which they operate. The latter frequently differ, particularly in emphasis and degree, from those in effect in the United States.

Banking systems also differ from country to country and functions normal to U.S. banking may not necessarily be permitted within the framework of commercial banking elsewhere. Conversely, functions not within the sphere of commercial banking in the United States may be traditional elsewhere.

Within this context is the type of activity conducted by U.S. banks abroad. As described previously, American banks are heavily engaged in international financing and servicing the needs of U.S. nationals and are relatively much less active in purely domestic operations, either through choice or through unofficial agreements. They engage intensively in trade financing and the Eurodollar market. It is the exception rather than the rule for American branches abroad to offer similar services to a comparable degree as indigenous banks though affiliates may be fairly indistinguishable from the latter. However, U.S. banks, whatever the scope and structure of their operations, are bound by the legislation and regulations affecting banking in the host country.

While permitted bank operations and banking regulations may differ and differ widely from country to country, these are generally applicable on a nondiscriminatory basis to all banks, domestic and foreign, including U.S. banks. To the extent that banking and exchange regulations are disproportionately directed toward foreign business in individual countries, foreign banks tending to be heavily engaged in this type of operation suffer more than if they conducted a diversified banking practice similar to domestic banks. This type of discrimina-