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ECONOMIC POLICIES AND PRACTICES

PAPER No. 10

FOREIGN GOVERNMENT RESTRAINTS ON
UNITED STATES BANK OPERATIONS
ABROAD

MATERIALS PREPARED FOR THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES



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LETTERS OF TRANSMITTAL

APRIL 11, 1967.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the Joint Economic Committee and other Members of the Congress in a study entitled "Foreign Government Restraints on U.S. Bank Operations Abroad." This study was prepared for the Joint Economic Committee by The American Bankers Association at the committee's request. It is a follow-up to Study Paper No. 9, published last year, entitled "Foreign Banking in the United States."

This study is meant to supply a description of American banking operations abroad and the conditions under which they do in fact operate, as revealed by actual experience of these bankers abroad. It is not meant as an assessment of the regulations by foreign countries, nor as a brief in connection with any policy proposals under which banks operate here or abroad.

The committee is most appreciative of the cooperation of The American Bankers Association, its staff, and the various participating banks. It is hoped that the resulting picture of the conditions facing American bankers seeking to operate in foreign countries, as seen by the bankers themselves, will be of value to all interested in this field.

This paper is the 10th of the series on *Economic Policies and Practices* in the various foreign industrial countries which the committee has undertaken during the past years. The views expressed do not necessarily represent the views of the committee, individual members thereof, or the staff.

WILLIAM PROXMIRE,
Chairman, Joint Economic Committee.

APRIL 3, 1967.

HON. WILLIAM PROXMIRE,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a report on "Foreign Government Restraints on U.S. Bank Operations Abroad." This is Study Paper No. 10, another in the series on *Economic Policies and Practices* in the various foreign industrial countries which the committee has undertaken in the interest of increased understanding of international economic policies as practiced by the leading industrial nations.

This paper grew out of Study Paper No. 9, "Foreign Banking in the United States," which was published last year. That study of foreign banking operations in this country and their regulation evoked questions as to the experience of American banks operated in other countries—the other side of the coin, so to speak, from Paper No. 9. This study is intended to be descriptive, and not to express an opinion or brief concerning the desirability of any particular kind of operation or regulation, either here or abroad.

This study paper was prepared by the Department of Economics and Research of The American Bankers Association under the direction of Thomas R. Atkinson, director of economic research. He was assisted by Jacqueline T. Belisle of The American Bankers Association who carried a major part of the burden of assembling the report. Most of the information on which the report was based, particularly the detailed appendix tables, was derived from a survey of U.S. banks active in the international field, without whose cooperation the study could not have been done. Additional assistance was obtained from bankers associations in foreign countries and individual staff members of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the U.S. Treasury. The Association was aided by the major American banks with operations abroad, and the project itself was reviewed by a committee of experts from the various operating banks.

It is understood that this study does not necessarily represent the views of the committee, individual members thereof, or the staff. The staff has not sought to alter or censure the manuscript, though it has cooperated with the staff of The American Bankers Association in designing the structure of the study as to coverage and style, so as to make it as useful as possible to the members of the committee, the Congress, and the public.

JOHN R. STARK,
Executive Director.

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**FOREIGN GOVERNMENT RESTRAINTS ON
U.S. BANK OPERATIONS ABROAD**

A study prepared by The American Bankers Association for
the Joint Economic Committee of the U.S. Congress

CHAPTER I

AMERICAN BANK RELATIONSHIPS WITH FOREIGN GOVERNMENTS

Relationships between American banks and the governments and banking authorities of countries in which the former have established or are attempting to establish operations are shaped by motives stemming from quite disparate points of view. On the one hand, the banks are profit motivated, oriented toward aggressive competition with other financial institutions and, at least in their international transactions, have no great compulsion to shape their actions primarily to preserve cultural or national identities. On the other hand, governments as representatives of people with such values are motivated both by the general economic welfare of those people, the particular welfare of special groups in their society and less tangible considerations of preserving a feeling of national unity. The extent of cooperation obtained by American banks in their overseas activities thus depends on the degree to which there is a similarity of interest between the banks and foreign governments. Considering the potential differences that may exist, it is perhaps remarkable that American banking has expanded overseas to the extent that it has. This chapter focuses upon the unique characteristics of American overseas banking philosophy and the broad principles that motivate foreign countries in their attitudes toward U.S. banks.

THE PHILOSOPHY OF U.S. BANKING ABROAD

The philosophic attitude of U.S. banks toward international banking is shaped by the history of our country, its participation in world trade and investments and by the laws governing overseas banking.

The growth of world trade and investment since 1950, the regeneration of exchange and money markets in Western Europe since 1958 and competition in the field of domestic commercial banking have fostered the enlarged participation of U.S. banks in international activities by presenting opportunities for profitable service to clients. The swift economic recovery of industrial Europe and Japan since the war resulted in the dismantling of exchange controls and other barriers to trade and capital flows. This permitted resumption of international investment, including large-scale U.S. private direct investment abroad and sizable foreign investment in the United States. Although the possibility that nations might revert to the restrictive trade practices and exchange controls of the interwar and the immediate postwar years cannot be wholly ignored, the current emphasis is still on programs and policies aimed at further increasing the volume of trade and investment. It is against this background that the remarkable expansion of U.S. banks abroad must be seen.

There are many reasons why banks expand overseas. However, the basic motivation lying behind a bank's policies (as well as those

of other business concerns) is, of course, seeking out all opportunities to maximize profits relative to risk in the long run. To the individual bank, therefore, only the hope that these overseas facilities will net as great a return to the capital allocated to these functions as alternative uses of funds can justify such investments in manpower and financial resources. This is not to say that the standard of profitability is applied to individual transactions. American banks operate abroad importantly to provide the fullest possible range of services to their customers. At times a particular foreign investment may not return as high a profit as an alternative investment, but the investment is undertaken in order to provide services which will, it is hoped, enhance the bank's position on a long-term basis.

In providing services to present and future customers, banks must have a global point of view. In fact, it is the increasing importance of the global aspect of business which makes overseas expansion imperative to meet the present and future needs of the truly international company. The growth of the multinational corporation since the war has been vigorous; U.S. firms have, quite naturally, played a vital role in this process. To provide the best possible service for such clients, banks have greatly expanded already existing operations overseas, opened new branches, created affiliates, and established correspondent relationships and, in some cases, made the initial decision to go abroad. This trend has been particularly noticeable since the 1950's.

In addition, the provision of global service assists a bank in helping its U.S. customers domestically by providing facilities for those without overseas establishments or who have only occasional need of a bank for foreign activities.

Related to the consideration of servicing clients is the question of competition. Competition in the banking industry provides a strong reason for going abroad. A bank's competitive position vis-a-vis other banks is obviously of prime interest to management. U.S. banks face competition from two sectors. In endeavoring to supply banking facilities for the foreign business of domestically based U.S. corporations as well as for the foreign subsidiaries of U.S. corporations, individual U.S. banks face pressures both from other U.S. banks abroad and from local foreign banks. In addition, U.S. banks face competition for the local business of foreign firms. To meet competition from these sources more adequately, American banks establish bases of operations in one form or another in foreign countries.

It is also worth noting that in the process of increasing their foreign activities, American banks may endeavor, where permitted, to provide local markets abroad with banking services. This pressure to develop fully both the retail banking market and the market that heretofore has not been considered part of international banking, such as smaller, purely domestic firms, is an important characteristic of U.S. banking abroad that influences their relations in most countries.

In endeavoring to service all these clients, U.S. banks with foreign operations are, of course, faced with various foreign banking, monetary and foreign exchange regulations and restrictions, and must often compete on an unequal footing with local banks abroad. However, U.S. banks, committed as they are to a global point of view, continue to expand their overseas operations, deeming it often in their own interest as permanent participants in the host countries' economies to favor

measures that aid the longrun economic well-being of the host country rather than merely the U.S. bank's shortrun profit position.

It is not clear that restrictions on interest rates and capital flows from the United States have affected decisions of American banks to increase foreign activities. As already mentioned, banks go abroad for the long pull and not to avoid the policies of their home nations. Here, too, appropriate action to change restraints is often indicated. On the other hand, if there are capital controls on funds leaving the head-office nation, it is often easier to service customers abroad with banking operations overseas. Also, domestic restraints on interest rates may encourage the acceptance of deposits abroad.

An ancillary problem, once a bank is already abroad, is the decision as to whether to expand foreign operations to other countries or within the same country. A decision may be based on a bank's desire to broaden its geographic spread for the many reasons already mentioned, including the provision of global service. In addition, a bank may wish to diversify its risk in foreign operations; certainly, considering the risks involved in overseas business, it is prudent to have investments in many different areas. Also, a bank may wish to take advantage of new opportunities as they present themselves in areas other than those already covered by a branch. New branches may also be opened to round out a package; for example, if a bank has offices in some of the Common Market nations, it may wish to expand its operations to the others to have the EEC fully covered.

Basically, longrun profit offers the primary stimulus for a bank to go abroad. It is, of course, this long-term consideration which helps explain why banks demonstrate their ability to make positive long-term contributions to the economies of host nations, including, among other things, loans to foreign governments. In fact, U.S. banks have remained overseas in areas where conditions have not been conducive to the orderly conduct of business and have weathered storms, both political and financial, in problem countries, in order to evidence their desire to be a long-term partner in the continuing economic environment of the host nation. While American banks may hesitate to enter countries threatened by war, they seldom leave merely because of conditions of personal danger. Only when banking becomes physically impossible do American banks disband operations overseas.

One fundamental problem of American commercial banking abroad has been the concern of most nations, including the United States, over their own balance of payments and the role foreign banking operations play in determining it. One relevant consideration here is that in general, American banks follow the principle of a balanced position. The most obvious example of the balanced-position principle is the matching of the maturity of assets with the maturities of liabilities within broad ranges. Thus, for example, banks often limit their term loans, long-term tax-exempt bonds and mortgages to the amount of their time deposits. Likewise, in their international positions, it is prudent for financial institutions to balance their liabilities in particular currencies with assets denominated in those currencies. Similarly, there is a longrun tendency for deposits held by American banks, including head offices, branches, and affiliates in foreign countries to equal roughly the loans made in these countries.

In the short run, of course, deviations from a balanced position in currencies, in the amount of deposits versus the amount of loans and

in maturities of assets and liabilities, occur frequently in international banking. Furthermore, these positions can change with daily shifts in money market conditions, as well as those shifts that take place seasonally and cyclically and as longer run changes occur in development of nations.

For purposes of this study, therefore, this very broad and general principle means that there is a tendency toward a balanced position in international transactions on the part of financial institutions as a result of the fact that the countries that are the most heavy users of funds are also likely to be those which, in the long run, will generate the heaviest volume of bankable funds. On the other hand, this is a statement of longrun tendency only, and is not intended to deny that the shorter the time period under consideration the greater are the departures from this norm. Moreover, obviously, it is less true for particular countries and areas than it is for all overseas activities of U.S. banks taken as a group. U.S. bank lending to Japan, for example, may be expected for many years to exceed deposits generated there because of the present stage of development of that nation.

There, is however, a tendency both here and abroad to judge international financial institutions on the basis of whether they contribute to or alleviate balance-of-payments problems. In some cases the welcome extended American banks by foreign countries may be determined by a country's belief that a U.S. banking facility may act to bring funds into the country and, at times, the range of services that are permitted to be offered can be determined by such attitudes. Yet, it must be obvious that the flows of funds between countries result from fundamental conditions in each country, that is, their ability to generate savings and to use capital, and only secondarily from the presence or absence of banking facilities of particular types. Moreover, the physical presence of banking facilities in a particular country seldom can be construed to mean that the entire volume of bank funds flows through these channels. For example, not only may foreign loans be extended by the head offices of the banks, but frequently foreign deposits are held there, irrespective of the presence of branches or affiliates. Moreover, loans for foreign purposes may be made by the parent bank, while the overseas deposits of the borrower are held at the branches or other facilities. Thus, one is always faced with the problem of determining what flows would have occurred if foreign facilities had not been available.

In this connection, there is a temptation to determine the balance-of-payments contribution of financial institutions on the basis of simple balance sheet data which may be misleading. For example, an uncritical examination of table 2 in chapter II indicates foreign branches of Federal Reserve member banks, i.e., all U.S. banks with branch facilities abroad hold more deposits than they have loans and other assets. The balance is made up by a large volume of "due from head office and branches." Yet, it is fairly obvious that a conclusion that U.S. banking facilities abroad result in an outflow of funds from foreign countries is erroneous. First, not all U.S. overseas banking is included in such a comparison: neither home office activities nor the activities of affiliates are included. Second, the branches themselves can seldom be considered a banking entity unrelated to the parent bank on whose assets they depend in part for liquidity. Finally, as a single snapshot in time, the balance sheet at year end is unreliable

because of the large number of purely financial transactions at that time and the lack of ability of these data to convey any information about the flows over time.

There are other types of underlying considerations that may create problems for American banking in entering foreign countries. First, because of balance-of-payments difficulties, the basic legislative and regulatory thrust of most countries in the last several years has been to decrease the ease of practices that could facilitate capital flows that have in the past caused so much trouble. For many countries this means domestic banks are not encouraged to expand abroad and, thus, there is relatively little pressure to assure that reciprocity is granted to foreign banks. Second, and perhaps more important, is a basic difference in character of American banks and those of many other countries. U.S. banks are known around the world as intense competitors with any and all other banks, whereas in many foreign countries, not only is the competitive drive between banks more difficult to detect, but legally recognized cartel associations fix and enforce many of the terms under which deposits are received and loans and other services are provided. Branches or subsidiaries of American banks, for the most part, must operate under such agreements in host countries, and violations of the agreements seem much more hazardous to commit for the nonhost country bank, whose operation is entirely at the sufferance of the host country central bank or banking authority, than it is for indigenous institutions.

American banking may encounter difficulty abroad simply because of differences in views as to the function of commercial banks. In the postwar period, American banks have generally been more willing than their foreign counterparts to extend long-term loans.¹ While this is perhaps a mark of a capital-rich country, it is also a point of dissent with foreign banks, which generally like to see longer term funds come from the capital market (through equities) or from retained earnings. The result is likely to be that foreign business customers are sharply divided between those that value an arm's length transaction with sources of financing, and those that are so firmly attached to their own country's banking connections that they are unable to consider an American bank under any circumstance.

Recently, an American banker pointed out a basic difference in American and foreign banking practices that undoubtedly affects U.S. banking abroad, though his point was that such practices were a deterrent to capital formation. The American banker criticized foreign banks for buying stocks of corporations to which they also lend money. In his view, the foreign practice of depending more upon bank lending for capital than does American business means that fully developed capital markets have not been permitted to grow. In particular, he scored the lack of attention abroad to the American principle that borrowers should be encouraged to get out of debt quickly. Though he did not say it, his remarks pointed up the difficulty of U.S. banks in dealing with foreigners on the basis of American principles of finance.² Indeed, it may be that the lesser development of indigenous capital markets abroad makes more important the role of larger banks, both American and foreign, in economic development of foreign countries.

¹ J. Louis Robertson, "Banks and the Balance of Payments Problem," Excerpts from Crotonville Conference, December 1965, published in *The Atlantic Community and Economic Growth*, p. 52.

² Speech by George C. Scott reported in the *New York Times*, Nov. 23, 1966, p. 53.

Thus, in soliciting customers, differences in the nature of American and foreign banking systems raise some obstacles to American banking efforts overseas. This is particularly true where there is a strong identity between the commercial bankers of the country and the monetary authorities who are in position to pass on operating practices.

No discussion of the philosophy of U.S. banking abroad would be complete without indicating the delicate nature of the relationship between the U.S. banks and the government, the central bank, and the commercial banks in the host country. While all commercial banks both here and abroad conduct their business at the sufferance of governmental authorities, in foreign countries American banks feel particularly constrained to be cooperative participants. In relatively few countries are foreign firms subject to legal discrimination; instead, most, if they are permitted to enter, are considered fully equal legally to institutions with head offices in the host country. Yet, particularly in banking, where contacts with authorities are frequent and detailed, the active cooperation of government is a prime requisite for successful operations, and this cooperation is not such that can be demanded as a right or law, or that cannot be terminated formally or informally. American banks, therefore, enter foreign countries as guests, albeit hopefully as permanent guests, and their conduct, needless to say, must be beyond reproach.

Such a necessity to maintain completely harmonious relations requires American banks to be particularly circumspect in their statements and criticisms of foreign governments. Whereas American banks have been active commentators on U.S. economic affairs and offer advice freely on all matters of U.S. banking regulation, national finance, and international economic relations, they are scarcely able to comment as freely abroad within their status of guests on their best behavior. This accounts for the fact that American banks are often not in the forefront of those demanding free banking in all countries. While American international banks would undoubtedly benefit from greatly enlarged freedom to enter and conduct banking abroad, they are also susceptible to gaining the reputation of being undesirable and of being charged with using their large size and the economic and political power of the United States in their self-interest. Accordingly, their long-term interests dictate that they maintain in foreign countries an attitude of active cooperation within the scope of existing banking authority, regulatory system and banking structure. Only by such an attitude will American banks be able to accomplish their aims of extending their operations to maximize longrun service and profit opportunities.

ATTITUDES OF FOREIGN COUNTRIES TOWARD U.S. BANKS

In an important respect, the receptivity of foreign countries to the establishment of U.S. banking facilities in their countries is a product of their general attitude toward foreign ownership of domestic business facilities. Countries differ in their attitudes based on various sets of motives. Many have several such motives important in limiting bank entry.

Countries Motivated by Desire To Protect Cultural and Economic Independence

It has long been the policy in Scandinavia to limit entry of foreign business. The major motive has, apparently, been the feeling that, at least by the standards of major economic powers, the economies of Scandinavian countries are relatively small and are likely to be completely overwhelmed by international business organizations. While these countries have often been among the most favorably disposed to freedom from restrictions in the international movement of goods, their liberal attitude has not extended to capital flows or ownership of physical facilities by foreign firms despite the fact their banks carry on a sizable foreign business and a few have facilities abroad.

Even more difficult are the cases of Switzerland and Canada, where protection of a unique culture seems to limit entry of foreign business firms. While Swiss business firms compare favorably in size to most of those in neighboring countries, the presence of a high proportion of foreign workers (approximately one-fifth) and successive waves of foreign purchase of property have caused increased concern that the character of the country was changing faster than was desired by its citizens. Offsetting this, at least in part, has been the desire of the Swiss to be scrupulously neutral, which, at least, has tended to assure strict impartiality between countries. Canada, although one of the major countries of the world measured in terms of national product, nevertheless is dwarfed by the industrial might of the U.S. economy lying just to the south. Canadians have deplored for many years the swamping of their markets by U.S. products, and the growth of U.S. corporations in both natural resource industries and manufacturing and distribution facilities that were once entirely Canadian. Those who have valued a unique Canadian life have seen their communications media—movies, radio, television, and magazines—give way to those produced in the United States. In such a situation, U.S. business firms in recent years have been discouraged in takeovers of companies, but continue to be encouraged in new industrial and commercial enterprise.

All nations, of course, experience this desire to avoid being swamped by outsiders with strange practices and beliefs: in many ways this is evidence of justifiable patriotism or national unity. Many nations, however, relegate such views to secondary consideration or have other reasons for opposing heavy foreign investment in their business firms.

Countries Motivated by Desire To Control Economic Development

In numerous countries around the globe, economic planning is an indirect influence on decisions of business firms. In some cases this is done through tacit control over credit; in other cases the government directly indicates to private business its wishes. While there may or may not be formal controls as well, it is quite evident that economic units that are removed from maximum influence by government, and at least potentially have access to funds from abroad, would be less certain participants in the economic plan. In France, in particular, indicative planning has been cited as a reason foreign firms have been discouraged in beginning operations. Additionally, a few major industries and some regions have seen a considerable part of their

ownership taken over by foreign firms that apparently did not hold the philosophy of economic welfare held by indigenous French firms

Countries Desiring To Rid Themselves of Colonial Status

Particularly among those nations that have recently achieved an independent status, the presence of foreign-owned business firms raises the question of whether political freedom will once again be subverted by foreign economic domination. These nations often prefer some diseconomies if they can own and run their own facilities without help from abroad. Behrman lists as reasons for this suspicion of foreign business on the part of the newer nations (1) seeming "exploitation" of national resources particularly in extractive industries, (2) the draining of investment income for a long period while the initial investment was concentrated in only a few years, (3) need for constant remission of earnings even in times of foreign exchange difficulty, (4) unrealistic earnings, services or prices of goods provided by parent company, and (5) apparent distrust of nonnationals.³

Countries Motivated by Strategic Considerations

In some countries, the dominant motivation for regulation of foreign business tends to be a somewhat old-fashioned concern over maintaining strategic control over industry in its own hands. Sometimes this is defense motivated, and sometimes it is a realization that the country gains particular power from certain industries. Often such attitudes are inherited from earlier times when such considerations could be more easily justified. Britain, for example, does not allow foreign control over domestically based merchant marine and passenger fleets. France has been much concerned about the ownership of facilities to produce armaments and computers, as well as the foreign acquisition of food plants in one of her most fertile regions.

Banking bears an unusual position in this classification of strategic industries for, while it is difficult to make the case that a country's resources might be diminished by the noncontrol of its banking facilities, in time of war it would certainly be difficult if an important segment of its banks were in unfriendly hands. Accordingly, it is occasionally found that limitation on the extent and type of foreign banking has in its background strategic considerations. To some degree Australia's position on foreign banking may be strategically motivated.

Countries Desiring To Protect Existing Institutions

In most fully developed countries with functioning money markets, the case for allowing the entry of foreign banks in order to satisfy unmet needs for finance is relatively weak. Strangely, these countries frequently are those permitting the greatest freedom of entry to foreign banking. Among such countries, however, there is likely to be a greater appreciation of the reciprocity problem as well as some allegiance to the principle of freedom of commerce which is accompanied by recognition of the desirability of providing financing institutions specifically for foreign trade. In Britain, for example, there are

³ J. N. Behrman in Mikesell, Raymond F., ed., *U.S. Private and Government Investment Abroad*, Eugene, Oreg., 1962, pp. 180-1.

definite divisions of banks by function which include (1) clearing banks, (2) merchant banks, and, lastly, (3) the overseas and foreign banks (one category).⁴ The latter group exists to finance foreign trade specifically, and while not prohibited from other activities, by custom, largely confine their activities to transactions having to do with particular areas, or the firms or citizens of particular countries. It is in this category of overseas banks that American branches in Britain are ordinarily considered, a somewhat confining limitation to U.S. banks accustomed to offering a wide variety of services. For the most part, American banks operating direct branches have not entered aggressively into domestic retail banking abroad, except in the Caribbean, though their wholly or partially owned subsidiaries elsewhere are often major retail financial institutions. On the other hand, American banks have competed freely in offering "wholesale" banking to major world business firms and, in fact, being for the most part the only institutions with a virtually unlimited supply of credit, until recently, have tended to offer a unique service in the form of provision of a volume of funds and interest rates unmatched in any other country.

In a few countries, whatever the nominal reasons for limiting the entry of foreign banks, the major obstacle is undoubtedly the fear of competition with existing institutions. Since most of these countries require foreign banks to observe cartel agreements on charges for services and have other means of limiting competition, it is somewhat difficult to justify the difficulties to entry imposed on foreign banks, at least from the standpoint of American philosophy.

In this category several countries are acutely conscious of the difficulty of their own domestic banks in competing for deposits with international banks from countries with more stable currencies and often less uncertain political climates. Thus, while they may accept some form of foreign banking, these countries may severely limit the ability of foreign branches to accept deposits. Countries in this classification would seem to include the Philippines, Taiwan, and some countries in Central America. Allowance of local governmental authority over any major part in the decision to license foreign banks, as in the case of Germany or Switzerland, works strongly against entry of American banks, even though the official banking agencies appear agreeable.

One understandable reason for restrictions on foreign banking which only occasionally is cited is perhaps more justified. That is visible evidence of overbanking. In general, this condition may exist in particular cities or regions of even the most liberally minded countries and cause the authorities to deny licenses to operate even though the general policy is one of unrestricted admission of foreign banking. Among countries having such problems are Hong Kong, Britain, and Japan.

Despite the natural reluctance of American banks to discuss adverse attitudes toward their activities on the part of foreign countries, four cases are sufficiently well known from sources that do not involve individual private banks as to deserve particular attention.

⁴ See Sayers, R. S., *Modern Banking*, Oxford, 1964, pp. 44-45.

Europe

Broadly speaking, the obstacles to American business are motivated in Europe by the strategic industry problem (here strategic is fairly broadly defined), the disparate size of American and foreign firms, and a feeling that American firms are insensitive to European problems, customs and ways of doing business, and relations to government. (American willingness to shut down unprofitable plants is the typically cited example.) In all of these matters, the banking industry, among all U.S. industries, does not rank highly as a threat to Europeans. However, in the characteristic of American business most highly valued in Europe, that is the ability to demonstrate and transmit technological advancements, the U.S. banking industry, in foreign eyes, does not have anything unusual to offer either. In general, the technological changes in banking, while they have been great, are not such as to involve much timelag in being transmitted from country to country. Those associated with physical processes (check handling, credit cards, etc.) are capable of being passed rapidly across international borders (even though competition may not require them) while those that involve new concepts (certificates of deposit, bank debentures, term loans) involve changes of tradition, legislation, et cetera, which are extremely slow to be accepted and do not merely involve learnable techniques.

Some of the European resistance to the entry of American business has been a product of fear that America was really not in Europe to stay but that after sapping the viability of indigenous industry by taking over an important share of the domestic market, American firms might well pull out. Long-range European defense policy, looking toward its gradual independence from American help, therefore required limiting American business entry. While this is not specifically aimed at banking and the capital market, certainly it was not difficult to encompass these areas in those industries considered strategic.⁵ Whether this reasoning is significant in determining current European attitudes toward American banking cannot be assessed here.

Central America

Under a headline "Small Nations Don't Want U.S. Branches" an unusually frank article in the *American Banker* spelled out the reasons U.S. banks are not warmly welcomed in a group of countries.⁶ According to the author, the feeling exists in Honduras and, by implication, in other Central American countries, that U.S. firms and private investors who formerly brought funds to Central America will now merely borrow them from the U.S. bank branches which, in turn, will have obtained them from local depositors. Citing the loss by Guatemalan banks of one-third of their deposits after a U.S. bank opened a branch, he indicates the U.S. bank increased its deposits by more than half of that amount and most of the rest was presumed to have reached U.S. investments through the facilities of the U.S. branch bank. Some \$21 million of Guatemalan deposits, according to the author at the time of the article, were controlled from one desk in New York.

⁵ *The Atlantic Community and Economic Growth. The Climate for American Business in Europe*, p. 4, report of the Crotonville Conference, Dec. 12-15, 1965. The Atlantic Council of the United States, Washington, D.C., 1966.

⁶ Nasralla, Manuel H., "Small Nations Don't Want U.S. Branches." *American Banker*, Aug. 13, 1965.

In El Salvador, the account continues, popular pressure induced the authorities to prohibit U.S. banks from soliciting savings accounts.

It is obviously not the place here to judge the credibility of the above statement except to recognize that the charge of draining local resources and outside (sic arbitrary) control is a familiar one in Latin America. While American banks challenge the truth of these statements, it is sufficient to observe that the attitude does exist among some residents of these nations. Its statement here neither dignifies nor lessens its verisimilitude.

Canada

The case enjoying the most prominence at the present time is the revision of the Canadian Bank Act, so as to limit the growth of a Canadian bank, which recently came under American ownership or require the divestiture of at least 75 percent of the stock. The legislation requires a stock ownership of a Canadian bank by any single individual or firm be limited to 10 percent except where a larger percentage is now controlled. Asset expansion of a bank would be limited to 20 times authorized capital when that bank is more than 25 percent owned by one group.

In spite of the fact that the Canadian bank in question had been owned by Dutch interests for many years, a proposition by the First National City Bank in 1963 to acquire the stock was looked on with disfavor by the then Finance Minister, Walter Gordon. While the facts are in dispute, it was charged by Gordon that the acquisition of the stock was consummated in spite of a request to await the new bank act revisions. His view had been that, if approved, additional American banks would inevitably be attracted to the Canadian market. Gordon, it might be noted, has been a vigorous proponent of a policy of "repatriation" of Canadian industry which, of course, has seen increasing ownership penetration by American interests. While there is considerable Canadian political support for Gordon's position, the Canadian banking industry is said to favor elimination of the restrictions on U.S. ownership, in part fearing retaliation on the Canadian bank agencies in the United States and its possessions which do a large international money market business.⁷

Scandinavia

Swedish banking law is very specific in stating that a bank's founders, its directors and its stockholders must be Swedish citizens, thus effectively impairing foreign banking in that country. At least theoretically, however, foreign banks could establish operations if their function was entirely confined to a lending agency. Because of the severe currency control, however, it is unlikely that even such limited function offices would be approved or could be effective. While representative offices might be possible, not only would they be subject to the provisions of the currency control regulations, but also it is likely the offices could not even use the word bank in their title. While Swedish prohibitions against foreign banks are a matter of long standing, these prohibitions are, in fact, matters of law that could be

⁷ This account is taken from stories in the *American Banker* issues of May 23, July 7, July 11, July 13, July 22, Oct. 10, and Oct. 14, 1966, and a story in the *New York Times*, July 17, 1966.

changed.⁸ Similar severe limitations are also characteristic of other Scandinavian countries though the prohibition existing now is not impossible of change.

CONCLUSIONS

American banks, as a result of their heritage, the spirit of competition and desire to serve their customers beyond this country's borders, are engaged in vigorous efforts to establish footholds abroad. American banks, as well as other American business firms, however, run into various types of attitudes on the part of potential host nations as to the desirability of establishing a site of banking operations. Basic differences in concepts of banking between American and foreign banks and businesses in part shape the relationships. Despite the focus of this chapter on the differences between U.S. banks and the governments of foreign countries, which tends to give a misleading impression that such problems are general, the climate usually prevailing is one of harmony and close cooperation. It is not unknown that American banks are approached by foreign governments or nationals to establish operations in their countries. Similarly, U.S. banks are used to working under governmental supervision and recognize the right of governments to determine the banking system they feel best meets the needs of their citizens. The problem of getting American banks and foreign national governments to see the similarity of their interests is one in which a great many successes have been achieved and the large number of countries in which U.S. banks operate is testimony that the difficult cases described in this chapter are not universal.

⁸ The Swedish Banking Companies Act, 1955, as amended, and communications with the Swedish Bankers Association.

CHAPTER II

U.S. BANK ACTIVITY ABROAD

American banking abroad is a relatively new phenomenon in international banking circles. Significant U.S. participation dates only since World War I when banks, with their newly extended powers, were enabled to expand into overseas operations.¹ The potential of the international markets became increasingly evident and served to attract banks into the field. Today, international operations of U.S. banks have become widely diversified and extensive. No longer do United Kingdom and French interests dominate international banking, and the dollar has replaced sterling as the most widely used form of international credit.

Active U.S. participation in the international markets came at a most propitious time. Entrance into overseas banking had been virtually closed to national banks prior to 1914. Consequently, foreign operations were left to state and private banks. Neither of these, however, was engaged to any significant extent in financing through acceptance credits, the most common form of trade financing at that time. Few overseas branches, moreover, had been established. By the end of 1913, 26 foreign branches were in operation, six of which were direct branches of four U.S. banks, and the remainder were branches of two foreign banking corporations.

With the enactment of the Federal Reserve Act, however, international banking was opened to national banks. A market for dollar acceptances was established and national banks were permitted to open overseas branches—both innovations to national banking. By 1920, there were 100 direct branches of State and National banks. Total branches, including branches of subsidiaries and affiliates, reached an early high of 181 in that year.

Certainly there were extenuating circumstances beyond the opening of foreign markets that led to a comparatively large-scale rush of U.S. banks to international operations. Both the aftermath of World War I with its accompanying trade expansion, especially with Europe, and the lessening of reliance on sterling credits in international financing were instrumental in bringing about an active participation in international activities by American banks. As late entrants into the field, U.S. banks attempted to extend and diversify their operations as broadly as possible in order to compete with their more experienced counterparts in the United Kingdom and France.

The early 1920's saw a tapering of expansion in foreign activities by U.S. banks as the abnormal international trade growth leveled off. By mid-1926, the steady withdrawals of banks from foreign branching had reduced the number of direct branches to 72 and the total number, including those of subsidiaries, declined to 107. The initial direct overseas expansion—with its particular emphasis toward

¹ Section 25 of the Federal Reserve Act permits national banks with capital and surplus of \$1 million to establish branches in foreign countries and in U.S. possessions. Prior to the passage of the act in 1914, foreign branching by national banks had been prohibited.

Latin America and the Far East—had encountered major difficulties largely due to the inexperience of American banks abroad. The depression of the period only served to hasten the decline.

The 1930's presented their own peculiar problems to U.S. banking overseas—the depression and the decline of world trade, the wide-scale devaluations and, later, the influx of foreign funds into the United States were all deterrents to expansion of overseas operations. Throughout the World War II years, banks maintained their existing offices, albeit restrictively, and often in an official capacity. By the end of the war, however, banks had developed sufficient expertise to cope with the projected rise in international financing of the postwar period.

Expansion into overseas operations was quick in developing in one form or another during the late forties and early fifties. This growth has been especially pronounced since the mid-fifties. Today, U.S. bank facilities are located in virtually every important world market, and banks are now in a position to conduct business in most overseas centers.

Significantly, the leaders in overseas bank operations today—or their predecessor banks—were among the earliest entrants into the field. The Guaranty Trust Co. opened its first foreign office in London in 1897. The National City Bank of New York, the first of the national banks to open an overseas office, established a branch in 1914. The First National Bank of Boston opened its Argentine office the following year. Other leaders such as Chase National Bank, Bank of America, and Bankers Trust Co., soon followed, either through direct branches or through branches of subsidiaries.

More recent interest by American banks in diversifying into international operations has been heightened by the expansion of world trade and by the growing investments abroad by U.S. firms, particularly since the mid-fifties. In many cases, the initiation of international activities has been prompted by the desire to expand services to accommodate important domestic bank customers in their activities abroad. International banking facilities, in turn, have promoted avenues for increased domestic business. Banks with facilities abroad are usually in a better position to service the needs of the U.S. firms operating in foreign markets. Active competition between local and U.S. banks is not unusual and has generally led to better banking services being offered, not only to U.S. firms operating overseas, but to national firms as well. To the general public the availability of worldwide banking services has now become almost synonymous with aggressive banking.

No recognition of the forces causing U.S. banks to expand abroad would be complete without recognizing the influence of U.S. Treasury needs for depository institutions for funds held abroad. Most of these funds currently arise from Public Law 480, whereby agricultural surpluses of the United States have been disposed of among needy nations in return for local currencies. Other sources of funds include assistance programs requiring counterpart funds and surplus property disposals. It is interesting that the greatest expansion of American banking facilities abroad occurred during the buildup of Public Law 480 foreign currency funds in the period from 1957 through 1965.

While these funds are often held in either the central banks or private banks of foreign countries, Federal law requires U.S. banking

facilities be given preference as depositories if available. The result has been that frequently facilities of U.S. banks expanding abroad received their first major deposits from U.S. Government sources. Obviously, however, caution has had to be used in shifting funds from foreign banks to U.S. banking facilities, lest the effect on the country's economy be counter to the original intent of the program that generates the foreign currencies in question.

International operations of U.S. banks, meanwhile, have taken a variety of forms. Bank policy has generally guided the type of activities individual banks undertake—within the limits of foreign regulations, since banks today continue to be subject not only to U.S. regulations, but also to national regulations in the countries in which they operate. Together, these two factors are perhaps the major determinants of the extent and scope of international operations undertaken by the leading banks.

Statistical data on international operations are highly inadequate to measure the extent of U.S. banking abroad. Only fragmentary data are available, since international transactions are generally incorporated with the overall banking statistics. The Board of Governors publishes monthly data showing claims on and liabilities to foreigners; however, this covers only a portion of international activity by banks. Similar material is published by the Treasury Department. The Comptroller of the Currency publishes annually the balance sheet items of branches of national banks. Any additional material which may be compiled is not in published form.

Banking activities abroad include the traditional correspondent relationships, direct overseas branches, agencies, and subsidiaries and affiliates. The following descriptions briefly outline U.S. foreign banking activities.

INTERNATIONAL DEPARTMENTS AND CORRESPONDENT RELATIONSHIPS

Perhaps the most prevalent form of international activity is the international department and its correspondent relationships. Such activity is not confined to the larger banks nor to those located in major port cities. Medium-size and small banks throughout the country whose customer demand can command such services are increasingly engaging in international activities. The size of international departments varies from a one-man operation to an extensive and profitable adjunct to overall bank operations. Bank services range from the buying and selling of foreign exchange and the issuance of letters of credit, to acceptance financing, and foreign lending. Wide networks of correspondent relationships have been built up over a period of years to such an extent that individual banks are now able to channel and direct transactions to virtually every part of the globe.

Where bank policy dictates, this form of international operation has been used to the exclusion or near exclusion of all others. Banks adopting this approach maintain that establishing direct operations abroad would only serve to jeopardize existing correspondent arrangements. Local banks are held to have greater and more comprehensive knowledge of the immediate market than would a foreign bank establishing operations in the same market; the gain in prestige, the closer contact with American firms operating abroad—even over a

period of time—would not compensate for the loss of such important established contacts.

Banks with extensive overseas branch operations are also dependent upon correspondent relationships, especially in areas where their direct activities are light, or where they have not established facilities. The foreign department itself, moreover, is a necessary prerequisite to the establishment of direct operations overseas.

DIRECT BRANCHES

While correspondent relationships through international banking departments are the most prevalent form of international banking activity, branching is the most directly associated with the concept of "overseas banking." Although few banks have direct branches abroad, branch operations of those that do use this form are scattered throughout the world, some branch systems being quite extensive. At the end of 1966, 13 member banks of the Federal Reserve System had a total of 244 branches. (See table 1.) Of these, seven were national banks operating 230 branches and six were State banks with 14 branches.

TABLE 1.—*Foreign branches of member banks,¹ Dec. 31, 1966*

<i>Bank</i>	<i>Number</i>
Bank of America.....	44
Bankers Trust Co.....	2
Chase Manhattan Bank.....	42
Chemical Bank New York Trust Co.....	2
Continental Illinois National Bank & Trust Co.....	4
First National Bank of Boston.....	12
First National Bank of Chicago.....	2
First National City Bank of New York.....	124
Irving Trust Co.....	1
Manufacturers Hanover Trust Co.....	2
Marine Midland Grace.....	1
Morgan Guaranty Trust Co.....	6
Virgin Islands National Bank ²	2
Total.....	244

¹ Including 23 branches in U.S. overseas areas and trust territories.

² Agreement corporation owned by First Pennsylvania Banking & Trust Co.

Source: The American Banker, February 28, 1967.

National banks are authorized to establish branches abroad through section 25 of the Federal Reserve Act. A recent revision of the Federal Reserve's Regulation M governing branches of national banks expanded their powers to extend to some of those that are usual in the banking operations in the foreign location. These included issuing guarantees subject to stated amount limitations; investing in the securities of central banks, clearinghouses, government entities and development banks; and underwriting obligations of the national government of the country in which the U.S. bank is located. The revision was designed to enable U.S. banks to compete on a more equitable basis in local markets. Further revisions to regulation M are currently being studied, the most significant of which would permit U.S. banks to invest directly in a foreign bank rather than through a subsidiary.

The only State banks currently operating foreign branches are those chartered under the laws of New York State. As contrasted to

national branches, these may—in addition to those permitted domestic offices—assume further powers practiced in the foreign country.

The growth of foreign branches has been particularly pronounced during the past decade with the number of branches doubling within this time period. Assets and liabilities of foreign branches as of December 31, 1965, are shown in table 2. The increase of direct investments abroad, the creation of trade areas, and to a certain extent, the partial liberalization of regulation M has created further inducements for banks to follow their customers abroad or to expand their overseas facilities. While one of the primary purposes in establishing foreign branches is retaining or expanding services to U.S. customers operating overseas, banks have also been successful in gaining local accounts. The degree of receptivity and national regulations applying to U.S. banks necessarily restricts the expansion of such operations.

TABLE 2.—*Assets and liabilities of foreign branches of member banks, Dec. 31, 1965*

(Millions of dollars)

Assets:	
Cash and cash items.....	\$127.1
Due from banks.....	1,380.2
Securities.....	218.4
Loans and discounts.....	4,702.0
Customers liability on acceptances.....	569.6
Fixed assets.....	44.9
Due from head office and branches, gross.....	1,987.5
Other assets.....	75.4
Total assets.....	9,105.2
Liabilities:	
Deposits:	
Deposits of U.S. Government, State and municipal deposits....	231.6
Other, demand and time.....	6,723.3
Total deposits.....	6,954.8
Other liabilities.....	292.9
Acceptances.....	571.2
Due to head office and branches (gross, including capital).....	1,286.3
Total liabilities.....	9,105.2
Number of reporting branches:	
National.....	196
State.....	14
Total.....	210

NOTE.—The data presented in this table cannot be used to imply balance-of-payments contributions of U.S. banks for reasons given on page 6 of ch. I.

Sources: Comptroller of the Currency and New York State Banking Department.

AGENCIES

Closely allied to branch facilities abroad are agency operations. Agencies include overseas offices authorized to carry on lending activities but, as contrasted to branches, they are not permitted to receive deposits. In certain countries where national law permits foreign branches to operate only in a restricted sense, branches are tantamount to agencies. Illustrative of this type of operation are the U.S. branches located in Taiwan, where banks are not permitted to accept deposits from the public but are allowed to extend loans to local as well as U.S. firms.

Agencies have not been established in preference to branches—except in isolated circumstances where business conditions might not warrant the extension of diversified banking services. Such agency operations are thus effectively determined by national restrictions.

REPRESENTATIVE OFFICES

Where business does not warrant the opening of branch facilities, or where individual bank policy is less expansive, representative offices have served as an invaluable adjunct to overseas operations. Contact with correspondent banks, as well as U.S. nationals operating abroad and local customers, is much closer and more direct than through correspondent relationships alone. In many cases, a representative office will serve as liaison with an area rather than a single country. First-hand knowledge of the market is an important factor in this type of operation serving to supplement advisory services of the home office and expediting banking services.

LOCALLY ORGANIZED AFFILIATES

Overseas subsidiaries, while not the typical form of international operation, are becoming more prevalent. Not only are subsidiaries located in those countries which do not permit entry of foreign bank through other types of operations, but they are also found in countries that are more receptive to foreign banks.

This structure is quite similar to that of direct branches in terms of operations, forming a direct link to the parent bank. Certain important advantages may accrue to the parent bank, however, because of the closer identity with the local market. Acquisition of locally organized affiliates has resulted from the purchase of stock ownership of an established chartered institution or from a newly organized affiliate. The latter has generally been dictated by local banking regulations where other types of foreign entry are not permitted.

MINORITY PARTICIPATIONS

A relatively new concept of overseas bank expansion which has gained increasing attention is minority participation in newly established or in existing banking organizations. U.S. banks have acquired interests not only in commercial banks, but in investment banks and development banks as well.

Benefits to participating banks are not as clear cut or as precise as through more direct methods. However, banks have used this device as a means of entry into a country, for diversification purposes or as an alternative to direct branching. The relationship of equity interest and control can vary through a wide spectrum with management agreements and other devices providing considerable flexibility. Customer identification with foreign interests is less evident than through wholly owned subsidiaries, although this can become an advantage where foreign investment is suspect.

BANKING AND FINANCING CORPORATIONS—LEGISLATIVE FRAMEWORK

Bank operations abroad include corporations established to engage solely in international banking and finance. The authority to estab-

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.

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.

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.

By far the majority of countries lack specific legislation governing the entry of foreign banks. As a result, any restrictions placed on such entry are generally imposed by discretionary policy of the Government or of agencies charged with bank regulation and supervision such as the central bank or Finance Ministry. In cases where applicable legislation does exist, such as in Sweden, Mexico, Australia, and Canada, it usually prohibits the establishment of foreign banking corporations. Prohibition may be effected by making foreign ownership of facilities illegal, as in Sweden and Mexico, or it may severely limit the domestic activities of foreign banks, as in Australia. While in most instances the discretionary action of foreign authorities has allowed at least some form of entry, a number of countries appear at present to be effectively closed as far as the establishment of de novo foreign branches and affiliates is concerned. Brazil and Japan, on the other hand, are examples of countries that prohibit or currently refuse the establishment of direct branches only.

The application of discretionary powers may result, and on various occasions has resulted, in seemingly inequitable decisions on the part of ruling authorities. In other words, while one foreign bank's application may be approved, another may be turned down. In addition, changes frequently occur over time in the relative ease or difficulty of entry.

Where discrimination has been apparent, no indication of discrimination on a nationality basis exists. Specifically, there are no cases in which American banks appear to have been discriminated against because of their simply being American.¹ Rather, foreign regulatory authorities appear to judge each application on its individual merits. Of particular importance in this content are the benefits—specifically loans and other services—which the foreign country expects to derive from its new relationship.

One form of "impersonal discrimination" exists where countries legally require demonstration of reciprocity on the part of the applicant's home country. This discrimination is relatively rare, however, but does include, among others, Brazil, India, and Japan. With respect to U.S. banks, the reciprocity requirement represents a potential problem since no provision currently exists for chartering foreign banks at the national level. Consequently, the individual U.S. bank faced with a reciprocity requirement depends on the law or discretion of the State in which it is domiciled whether or not reciprocity can be granted.²

In this connection, it should also be noted that insistence on the principle of reciprocity by licensing authorities in the United States may not always be in the best interest of U.S. banks operating overseas.³ While the question of reciprocity is often raised by local au-

¹ Whether the present Canadian bank situation represents such a case is debatable. Undoubtedly, no foreign acquisition of Canadian banks would at the present time receive an unqualified welcome from the authorities. Whether the Canadians would have moved to restrict the growth of the Mercantile Bank of Canada if its ownership had remained in the hands of nationals of the Netherlands, however, is not clear.

² For a detailed discussion of this subject, see *Economic Policies and Practices*, paper No. 9, "Foreign Banking in the United States," materials prepared for the Joint Economic Committee, Congress of the United States, U.S. Government Printing Office, Washington, 1966.

³ The concept of reciprocity has a number of facets in connection with international banking. Is it sufficient that foreign banks should be able to establish facilities of some type in the host country, or are restrictions on the form and function; i.e., limitations on direct branches, majority ownership of affiliates, and particular types of services within the meaning of the term? If the national authorities are willing but other authorities keep the facility from being established in a desired city, is reciprocal treatment being extended? Few would argue that precisely identical treatment is necessary to establish that reciprocity exists, for in many cases the scope of functions of a foreign banking facility would not require privileges such as discounting that exist to service indigenous banks. But where does the line of demarcation come? It is not proposed to construct a definition of reciprocity here, but rather to point out a few of the problems involved.

thorities in considering applications from U.S. banks, it has not been a requirement in the majority of cases, and for U.S. authorities to insist on this principle might very well hinder rather than assist U.S. banks in local negotiations abroad. At the present time, the licensing of foreign banks in the United States is a matter of State rather than Federal banking law and, as a result, the matter of reciprocity accorded here is exceedingly complex.

The degree of difficulty confronting U.S. banks in obtaining authorization to establish operations abroad depends upon the official and unofficial requirements in the country concerned. Few countries legally require a specific form of organization under which foreign banks may operate within their borders, but a considerable number enjoy their discretionary prerogatives to exclude effectively one or more structures. As was mentioned previously, Brazil has practically shut the door on direct branches, as have Venezuela and Japan. In the United Kingdom, Germany, France, Belgium, the Netherlands, and Switzerland, on the other hand, branch offices appear to be no more difficult to establish than any other form of organization. Some U.S. banks with extensive overseas operations prefer to establish direct branches because they believe this method has advantages of control, implementation of policy, profitability, and simplification of the decisionmaking process. Other banks, feeling the affiliate route has real advantages, strongly prefer the latter. Thus, in some respects, U.S. banks find their choices limited, and at times their incentive to go into specific countries may be determined by restrictions on the form of organization they are required to employ.

In many countries, although the establishment of a direct branch is not prohibited, there is a limitation either officially or unofficially placed on the number of banking licenses that can be issued. In such cases, it becomes necessary to purchase an existing bank, or possibly a dormant banking license with a subsequent conversion to a direct branch. Although the purchase of an existing bank may not be required, there may be instances where this would be desirable. The reasons may be the opportunity to obtain premises and staff, as well as an existing clientele.

In many countries where it is not possible to establish a direct branch or to convert an existing bank into a direct branch, it may still be possible to purchase an existing bank outright and to continue to operate such a bank under its existing name. Some banks believe such an operation is less desirable than a direct branch because of difficulty in identifying such banks with the overall organization of the parent bank. There are often instances, however, where the continuation of the previous name of an acquired bank may be desirable, and this would be applicable in those cases where the bank acquired has an exceedingly good name, has historical importance, or where the continuation of the name would be politically desirable.

In those countries where direct branches or the outright purchase of local banks is not permitted, the only avenue of operation is a minority participation in indigenous banks. There may also be instances in which a minority participation may be the most desirable regardless of whether or not there are restrictions on other types of operations.

European countries generally have no restrictions on the degree of foreign participation in a domestic bank, except where foreign owner-

ship of banking facilities is restricted or prohibited by law, as in Spain and Sweden. While the same tends to hold legally true for most Latin American countries, there appears to be greater resistance to a foreign majority interest than in the case of Europe. Discretionary objections to foreign ownership can also be found in various Asiatic countries. On the whole, however, the difficulties encountered in locating attractive participation opportunities in underdeveloped countries are considerably greater than the problems associated with obtaining official approval to invest in foreign banks. The same holds true for restrictions on directorships: the smaller the participation and the fewer the number of directors, the greater the possibility of having one's application to invest approved.

A minority investment operation may be desirable in many developing countries and, in particular, in recently independent countries that were formerly colonial territories. By participating with local interests it is possible, to a major extent, to overcome inherent fears of economic domination by developed countries, whether it be real or imaginary.

It may also be possible to establish an operation through participation with major banks of other developed countries and, by so doing, present the posture of an international bank which is not controlled by banking interests of any single country. Such an approach has the additional advantage of having as partners major foreign banks that are experienced in international banking, and which can provide staff and other support which is not available from local banks.

Major banks of the former colonial powers have been particularly receptive to this approach. In these cases, the vestiges of colonial resentment have been offset by assuming the posture of an international bank which is not dominated by any single banking institution. For a U.S. bank such an arrangement often has the additional advantage of having an existing network of branches which have been established by the predecessor bank.

LICENSING AGENCIES

It is not possible to generalize with respect to the local authorities which must grant approval for a U.S. bank to establish operations. No two countries are exactly the same with respect to the necessary procedure which must be undertaken to obtain approval.

These procedures run the full gamut from those countries such as the United Kingdom, where no formal approval is required to establish a branch, to those countries where any type of an operation is prohibited by law, such as in Sweden, or through administrative discretion, as in the case of Australia. In a number of states the chief of state or his cabinet may have to give permission for a foreign bank to open. Occasionally, the decision must be made by the legislative branch of the government.

By far the most common licensing authority are the central banks, but there is a wide variety of procedures through which the various central banks must go in order to grant authorization to a foreign bank for the establishment of a banking operation. For example, the central bank may have the sole authority to grant licenses, but before doing so it must obtain the concurrence of other ministries, such as ministries of treasury, commerce, foreign office, bankers associations,

and chambers of commerce. Such concurrence may be required under law or be merely traditional or customary.

Normally, licensing by central banks is the most advantageous from the standpoint of U.S. banks. Central banks, because of their customary responsibility for monetary policy, economic development, as well as international monetary and balance-of-payments responsibilities, are in the best position to judge the advantages of the entrance of U.S. banks into the local economy.

In many countries authorization for a foreign bank to operate is given to a banking commission and, once again, such authority may be with or without the concurrence of other governmental or business entities. The key factor in such situations is the composition of a banking commission. In certain countries such commissions may be composed entirely of governmental and central bank representatives, while at the other extreme, certain commissions are composed entirely of representatives of the local bank community. More commonly, such banking commissions have a mixed government and banking composition.

Although the approval of such a banking commission may be more difficult, depending largely upon the representation of local bankers who can be expected to act in their own best self-interest, it may still be more desirable from the standpoint of U.S. banks. Approval by a commission which has both governmental and private representation will have a broader endorsement for the establishment of an operation and, therefore, should create a more advantageous initial climate.

As indicated previously, the actual licensing authority very often must obtain the concurrence of other authorities which may be on a more or less informal basis. In many instances, however, more than one authority must formally approve the request of U.S. banks or commissions to initiate a banking operation. For example, a central bank may have to recommend formally the granting of a license to the authority which ultimately grants the license, which in turn may have to obtain formal recommendations from other interested groups.

In such situations, in which multiple authorizations are required, additional burdens are placed on the petitioning bank because it subjects them to justifying their request to the various interests, each of which may consider the application in a different context.

A final variation of multiple authorizations is the situation where even after having obtained a license to establish a banking operation it is still necessary to obtain formal registration to do business in the country concerned.

If entry is approved, the majority of countries grant licenses for an indefinite period. Several, however, restrict the license term: India, Pakistan, and Hong Kong require annual renewals; Canada, every 10 years;⁴ and Italy grants a maximum term of 99 years. In nearly all countries the banking authorities have a right of revocation, of course.

CAPITAL REQUIREMENTS

A substantial number of countries have specific requirements on the amount of capital for the establishment of a new banking operation. For the most part these are similar for both foreign and domestic banks. Very often capital requirements are specified in terms of a

⁴ Ten-year renewals apply to all Canadian banks, not just foreign-owned banks.

minimum relationship to deposits. A number of countries, for example, specify that deposits may not be more than 15 times capital.

An additional requirement for the establishment of a banking operation which has become common in an increasing number of countries is the provision that the foreign branch must be provided with its own capital. This means that the host government is unwilling to consider the capital of the parent bank as supporting the operation of a direct branch in their country and instead requires that capital funds actually be transferred prior to the opening of the branch. The requirement that a branch have its own capital funds may be made even more restrictive by prescribing the manner in which the capital will be employed and/or the imposition of balance sheet capital ratios.

Capital requirements for foreign bank establishments vary widely from country to country, ranging from no legal requirement whatsoever, to very high requirements. In most countries requirements are identical to those applicable to domestic banks, which frequently means that they vary according to classification of bank, size of deposits or risk assets, capital structure, number of offices, and so forth. In some countries, notably in Argentina, Brazil, Peru, and Venezuela, capital requirements vary with location and population, with requirements in the large population centers often being multiples of those effective elsewhere. A few countries, including Pakistan, have foreign currency requirements. In the latter's case, 5 percent of the opening deposit figure must be invested in the form of acceptable dollar and sterling securities.

As for regulations requiring investments in the foreign country's debt instruments, such requirements are generally tied to official reserve requirements or deposit balances. Here again, foreign banking institutions are normally treated as domestic banks, without apparent discriminatory clauses against the former. As in the case of the United States, many countries require such reserves to be held on deposit with the central bank. Countries which do require investments in debt instruments include Canada (unofficially), France, Italy (occasionally), Spain, Peru, Venezuela (unofficially), and Australia. As far as can be ascertained, no additional requirements for investments in development banks, and so forth, exist.

Perhaps the most vexing aspect of capital requirements arises in those countries where the banking authorities are vested with considerable discretion in licensing foreign branches. Particularly in those cases where there is known reluctance to grant foreign banks admission, it may be difficult to determine the capital requirements until the U.S. bank is actively engaged in negotiating for entrance. Since such negotiations may well establish the relationships between the U.S. bank and the government concerned for many years, the negotiations are not embarked upon lightly. Accordingly, there may be many years in which no U.S. bank attempts to enter and real knowledge of the acceptable capital to open a U.S. bank is lacking. Furthermore, there may not be any publicizing of capital requirements, as developed in unsuccessful negotiations since this would aid competing banks. In a number of countries, U.S. banks can merely speculate on the capital requirements and, if they know by reason of recent negotiations, they are not likely to tell competing banks or the general public. In a few cases, in the process of preparing the tables at the back of this study, different U.S. banks did not agree on the actual capital requirement.

DIRECTORSHIPS AND EMPLOYEES

In many countries, and particularly in developing countries where nationalistic tendencies are strong, but also in the countries where foreign financial influence is resisted, a U.S. bank may be required to appoint a minimum number of local directors. As such directors would be expected to act under instructions from their sponsors or sponsoring groups, such a requirement may in some cases constitute a severe limitation on the freedom of action of the U.S. bank. In other situations, however, local directors may be desirable from a public relations and business development standpoint. Once again, generalization is not possible and whether or not the requirement of local directors constitutes a real restriction would depend on the local situation of the country concerned.

Few countries have legal requirements concerning the hiring of indigenous personnel by foreign banks; included in this small group are, among others, Brazil (restrictions on salary payments to foreigners); Dominican Republic (80 percent of personnel must be indigenous); Mexico (indigenous personnel only, unless not available); Venezuela (75 percent of officers and staff must be indigenous); Switzerland (one of the managers must be Swiss); and Lebanon (staff must be Lebanese, but exceptions are granted). The absence of legal requirements is no indication that foreign banks are free to staff their operations as they see fit. In the vast majority of countries, informal pressure of varying degrees is exerted by the monetary authorities on foreign banks to employ as large a proportion of domestic personnel as is practically possible. Noncompliance with such requests may safely be expected to result in some form of discrimination in the treatment of the foreign banks.

CONDITIONAL ARRANGEMENTS

Foreign banks are permitted to own only a certain maximum percentage of the ownership of local banks in several countries. As this normally constitutes less than a controlling interest, it would discourage a U.S. banking operation unless, as indicated previously in this report, a minority participation is desirable for political or other reasons.

Although no instances are known in which participation in a development bank in the country concerned is a condition for establishing a banking operation, such a participation is apparently expected. This situation exists primarily in developing countries where every effort is made to obtain development capital from foreign enterprises seeking to conduct business. In at least one case, World Bank bonds are required.

A similar situation exists with respect to the purchase of government securities of the host country, and although this may not be a requirement for issuance of a banking license, it may be prescribed for the investment of required capital.

BRANCHING RESTRICTIONS

Expansion of U.S. banks into particular countries is sometimes hindered by host country restrictions on branching. This is particularly so where there are a number of important cities to be covered

by any American banks attempting to service even American customers in the foreign country. A case in point is that of Italy, where banks are classified by size, and geographical limitations are placed upon branching in accordance with that size classification. In general, the smaller banks, of the size a United States branch would normally be, would be unable to serve both Rome and Milan, but instead would have to confine their activities to a single city. In this case, it is the host country's attitude on licensing any new bank operation, either domestic or foreign, that would operate against any new U.S. bank operation in Italy. Restrictions on branching, even within individual cities, may inhibit U.S. banking in some large foreign cities with dispersed business districts in which it would be desirable to have several offices to make the operation in that country sufficiently profitable.

CONCLUSIONS

In the foregoing summary of the types of requirements with which U.S. banks must comply before obtaining authorization to establish an operation, consideration has been given primarily to more or less formal requirements.

In reality, local authorities have wide discretionary authority, meaning that additional requirements may be imposed on a case-by-case basis, and similarly, certain requirements may be waived. This means that it is extremely difficult to summarize realistically these requirements, and to a major extent, the obtaining of such authorizations is largely a matter of negotiation between the U.S. bank and the appropriate authorities in the host country.

At the present time, major American banks believe at least nine countries, by legislation or by discretionary policy, are closed to further direct American branches or to affiliates. Some already have existing U.S. banks represented by branches, majority-owned affiliates, or minority investments in local banks, but additional facilities would not be possible. Most, but not all, of the countries that bar additional U.S. bank entry at the present time do so by discretionary rather than legislative sanction. In a few cases the barrier is disguised in that entry is freely permitted, but under conditions that would make it impractical for U.S. banks to operate—impossibly high capital requirements or inability to make and return normal earnings on operations. In most cases, however, the banking authority has decided against further licenses to foreign banks. The nations essentially closed to further U.S. banking at this time, by reason of either direct prohibition or conditions that would make entry uninteresting to American banks, are:

Mexico
Canada
Sweden
Australia
Denmark

Trucial States
Saudi Arabia
Senegal
Taiwan

Many of these countries already have American banking facilities, so for those countries it is not as if the U.S. banking industry has been prevented from servicing them. Nor is it likely these nations will all continue to maintain this attitude. Some are, in fact, currently reviewing their attitudes on admission of foreign banks.

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-

tion, however, is largely unintentional. Deliberate discrimination against foreign banks is normally effected at entry.

Even though methods of government control vary widely from country to country, they tend to fall into certain broad categories, differing in approach and emphasis rather than in type. The following discussion outlines the most commonly used techniques by foreign governments and official agencies in regulating banking.

DEPOSIT RESTRICTIONS

One of the methods whereby foreign countries delimit the ability of American banks to operate is in their regulation of the type of deposits the latter are permitted to accept. This type of restriction is not widespread though it is significant enough to mention. Frequently, the restrictions are applied to new deposits as contrasted with existing deposits, and may apply to the origin, such as a limitation on the deposits of resident nationals of the host country.

Perhaps the most easily understandable limitations on deposits are those that may limit inflows of funds from abroad because of desire to prevent interference with domestic monetary policy. Thus, Switzerland imposes a limitation upon foreign funds to be employed in Switzerland. Similarly, Germany has imposed interest rate limitations on foreign deposits. The Netherlands limits deposits from nonresidents in foreign currencies to an amount not greater than 5 million guilders in excess of loans in each foreign currency. These provisions are usually applied to both domestic and foreign banks though they may actually be more burdensome upon foreign banks by the nature of their business.

There is a second class of deposit restrictions that is more deliberately discriminatory toward American banks attempting to do business in foreign countries. A number of countries do not allow foreign banks to accept savings deposits, apparently feeling that the function of foreign banks in facilitating trade is sufficiently served by their role in offering demand deposit services alone. Back of this, of course, is the view that the savings of the foreign country will be best channeled into long-term domestic investment through indigenous banking institutions. Partly, of course, foreign countries may fear that the attractiveness of deposit services offered by large U.S. banks could prove to be a competitive problem to their own institutions. Mexico, Peru, Brazil, Chile, Ecuador, and El Salvador, among other countries, fall in this category.

The restrictions on savings deposit funds employed by Switzerland are somewhat different. In that country, bearer savings notes provide a substantial part of the total savings media of the country undoubtedly because of the widespread continental penchant for avoiding financial transactions that could be traced by governmental agencies even though the Swiss banking law specifically provides for secrecy except in the case of crimes. By prohibiting foreign banks with offices in Switzerland from issuing these bearer savings notes, this part of the potential Swiss deposit market is effectively cut off. Somewhat akin to the problem of accepting deposits in Switzerland is the case of Pakistan where maximum rates of interest that may be paid on time deposits are observed by foreign banks but not by domestic banks.

Taiwan effectively prohibits U.S. banks from accepting from the public demand, time, or savings deposits from branches in that country, thus limiting the banking services that may be offered to the public to the lending function and also normal payments and exchange operations necessary to facilitate trade. On the other hand, the Government of Taiwan does itself maintain deposits in U.S. branches there so the latter are not entirely reduced to agency status.

In some cases the ability of U.S. banks to attract deposits may be inhibited by understandings or specific banking agreements against active solicitation of accounts from the customers of other banks. Because of the tendency for many countries to have much more limiting "codes of fair competition" than prevails in the United States, the development of U.S. banking business abroad tends to be a sensitive subject, particularly so since U.S. banks cannot afford to incur the enmity of either public officials or the banks of the host country. In Austria, for example, the banking agreement which foreign banks are expected to uphold considers unethical calls on other banks' customers for the purpose of soliciting accounts.

Second only to the direct prohibition of foreign banking, limitations on the obtaining of deposits by U.S. banks abroad is the most confining method of restriction confronted by American banks in their overseas business. Yet, only a small minority of countries employ this method and in most countries there is little question of the function of U.S. banks in this regard.

RESERVE REQUIREMENTS

Perhaps the most common form of monetary control for both indigenous and foreign banks is the requirement that banks maintain deposits—usually nonearning—with central banks or other government institutions equal to specified percentages of their deposit liabilities. This method of control is also a major tool in bank regulation in the United States. There is a Federal Reserve interpretation of long standing which does not require branches of U.S. banks abroad to maintain reserves with the Federal Reserve, therefore such branches are subject only to the regulations of the host country. A variation of this technique is the system of "special deposits" used by a number of central banks. A second related technique is that of requiring secondary reserves in the form of cash and government securities.

In times of inflation, or other economic stress, reserve requirements may be very high percentages of deposits, 75 percent or more, thereby limiting or even prohibiting new extension of credit by banks. At present, for example, extremely high reserve requirements are in effect in Chile and the Dominican Republic as part of anti-inflationary programs. In certain countries, such as Venezuela and India, only a portion of the reserve requirement must be deposited with the central bank. These reserve requirements may affect the profitability of American banking abroad but they do not tend to discriminate against U.S. banking facilities vis-a-vis indigenous banks. In fact, contrary to usual practices, Ireland currently imposes reserves and liquidity requirements on local banks but not on foreign banks.

LIQUIDITY RATIOS

Functions similar to reserve requirements and their variations may be accomplished by so-called liquidity ratios. Under this technique, banks are required to maintain specified percentages of assets or deposits in highly liquid assets such as cash, demand deposits, and short-term government securities.

France, for example, presently requires banks to hold amounts equal to a significant percentage of deposits in short-term instruments. In Nigeria, 25 percent of deposits must be in call loans, Treasury bills, Marketing Board bills, and similar assets. Similarly, in South Africa, 15 percent of total liabilities must be in "prescribed investments" determined by the Reserve Bank. American banking offices overseas are expected to conform to these liquidity ratio requirements of the host country. Again, discrimination against foreign banks in liquidity requirements apparently does not occur.

INVESTMENTS IN GOVERNMENT SECURITIES

As a further means of restricting credit or alleviating government financial stringency, banks may be required to hold specified amounts or percentages of assets in government securities, thereby restricting availability of credit to others and, frequently, limiting earnings. In several countries investments in government securities may be included as part of reserves. Honduras, India, Pakistan, Spain, and South Africa are among the countries in this category.

This type of regulation is not infrequently imposed by "moral suasion" rather than specific legislation. In Nigeria, banks are expected to maintain a treasury portfolio, while in Chile banks are "encouraged" to do so. Local banks in Italy are also under a similar implicit regulation and it can be assumed that foreign banks would also be obligated. This type of regulation may reduce the profitability of U.S. facilities, but it is apparently not applied to discriminate against foreign banks.

OTHER INVESTMENTS

Banks may be required to make investments of other types; for example, purchase of shares of the central bank, purchase of shares or other long-term securities of development banks or other government financial institutions, or investment of specified portions of earnings in long-term, less attractive loans to local industry.

As in the case of government securities, moral suasion is occasionally used as a means of fostering investments in government-affiliated institutions or in long-term loans to industry. In Venezuela banks are requested to invest in public works bonds. Pakistan takes a different approach. While not requiring banks formally or informally to invest in long-term securities, authorities permit government-guaranteed issues to be included in meeting capital requirements.

This type of regulation is sometimes directed specifically to foreign banks and is a condition to entry. Foreign affiliates in Greece are expected to commit themselves to utilizing a portion of dividends in long-term loans to industry. Foreign exchange regulations in Greece do not permit the remittance of dividends beyond a stated percentage of capital and it is the remaining amount which must be invested

under terms set by the banking authorities. India has a similar requirement for placing a substantial part of a foreign corporation's earnings in long-term domestic investments.

CREDIT CEILINGS

A frequent control particularly in times of inflation or balance-of-payment difficulty is the so-called credit ceiling. Under these restrictions banks are required, or encouraged by government persuasion to limit extensions of credit to a specified percentage of the credit extended by the respective banks at some earlier date. Such a program is now in effect in the United Kingdom, for example, and is applicable both to domestic and foreign banks. In the Netherlands, credit ceilings have been so restrictive as to prevent development of local loans by newly established banks. American banks sometimes suspect that their own strict observance of such guidelines in particular countries is not at all times matched by domestic banks, although this criticism is relatively minor.

LOAN RESTRICTIONS

Restrictions may be imposed on certain types of new loans or financing, either in terms of financing of certain classes of borrowers or financing for certain purposes (for example, stock market transactions). In some instances commercial banks, either by reason of long-continued practice or by law, do not engage in types of financing which are customary for commercial banks in the United States. For example, in France, commercial banks do not generally engage in mortgage financing or factoring.

Restrictions specifically directed to foreign banks are not generally a matter of policy in foreign countries. The United Kingdom presents one known exception. Special discount facilities for financing longer-term export transactions covered by the Government Credit Insurance Agency are available to United Kingdom banks only. Because of low interest rates, however, foreign banks do not find this business attractive.

INTEREST RATE LIMITS

Limits on interest rates payable on deposits or collectible upon loans may be imposed by the government or by agreement among banks. The latter are sometimes sanctioned or even enforced by the governments. While in many countries these work satisfactorily with respect to the American banks which are required to observe them, in a few cases there is a feeling that domestic banks may not always observe them.

EXCHANGE CONTROL

Shortage of foreign exchange or a desire to restrict investment abroad may be reflected in exchange control systems. Under such systems, transactions with foreigners or in foreign currencies may require government license. In some instances, transactions in foreign currencies must be effected only through government channels and rationing of available foreign exchange is not unusual. Particularly since World War II, these controls have been extremely widespread throughout Europe and elsewhere. The United Kingdom,

among others, still maintains exchange control systems of varying stringency. Restrictions in India and Senegal are also stringent. Other countries, notably Brazil, Greece, and India have imposed restrictions on profit remittances. U.S. banks, of course, observe all such exchange control measures and do not regard them as discriminatory.

CENTRAL BANK CREDIT

Many countries afford foreign banks established there access to the full services of their central banks. For various purposes, however, governments may limit the availability of facilities to foreign banks. The cost of discount or other refinancing privileges which are in most instances a major feature of central bank systems may also be increased. Frequently employed during periods of inflation, this control may also be used to discourage certain types of financing by banks.

The case of the United Kingdom deserves some comment. The Bank of England allows only the 11 clearing banks direct access to its discount facilities. Since additional clearing banks are not being created and since U.S. banks are classified as overseas banks, U.S. banks are effectively prevented from obtaining funds through the Bank of England discount facilities. On the other hand, American banks are not more discriminated against than many British banks that are also not classified as clearing banks, that is, the smaller deposit banks, merchant banks, and other overseas and foreign banks.

In Belgium, Venezuela, Japan, Greece, and the Dominican Republic, discount facilities are not normally available to foreign banks. In some countries, moreover, though technically discount facilities are available, the central bank would normally discourage requests. Under ordinary circumstances, U.S. banks abroad would rely on a domestic bank of the host country for any unusual assistance it might require and such accommodation is usually available. Accordingly, discrimination against U.S. banks by prohibiting direct access to the central bank is of little consequence as a measure inhibiting the spread of U.S. banking abroad.

BANK EXAMINATIONS

American banks with overseas operations are generally agreed that the examinations conducted by U.S. examining agencies, Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Reserve System, and the State banking departments are unsurpassed by any other country. Each of the three Federal agencies and some of the State agencies actually examine U.S. branches abroad. Most foreign countries likewise conduct regular examinations of U.S. banking operations in those countries. Among those countries that do not conduct regular examinations of foreign banks are Panama, Lebanon, Liberia, Saudi Arabia, Senegal, and Uruguay. It is particularly notable, however, that in the United Kingdom examinations are not conducted of U.S. banks operating there and merely an annual statement is required. Ireland also follows the same practice. Apparently no special problems are created by U.S. bank facilities being subject to foreign examinations.

OTHER REGULATIONS

The remaining reported application of regulations appears to involve only minor discrimination in the day-to-day exercise of administrative discretion or by other subtle means. In a number of countries the availability of central bank credit facilities to foreign bank branches has been limited from time to time more stringently than has been the case with local banks. The suggestion has been made that in at least one Latin American country foreign bank branches are expected to comply strictly with the letter of all banking regulations while local banks are allowed a degree of latitude in their compliance; and in one European country it has been suggested that banking controls are applied more liberally in the case of small banking institutions than in the case of larger banks (the complaint seeming to be that the larger banks, both foreign and local, have been discriminated against).

There is a final subtle method of discrimination employed in some countries. U.S. banks abroad must operate within the framework of the individual banking systems. The local banks, however, have effectively restricted operations of foreign banks in certain countries. One European country presents a classic example. Unless local bank cooperation can be attained, it is very difficult for foreign banks to operate within the country; for example, while foreign banks may engage in underwriting activities, they do so at the risk of incurring the enmity of local competitors with potentially adverse results.

CONCLUSIONS

Once a U.S. banking office is technically permitted to establish operations in a foreign country there are numerous ways in which their operations may still be limited. Chief among these are limitations on the acceptance of deposits. While a few countries actually confine overseas banking to merely agency operations (no acceptance of deposits) the more common restriction is upon the acceptance of savings deposits. Nevertheless, such restrictions on functions are comparatively rare. Still more rare are limitations on lending imposed by host countries.

American banking operations abroad are normally subject to the same banking regulations as the indigenous banks in a foreign country. Broadly speaking, American banks abroad must follow the same rules on reserve requirements, liquidity ratios, maximum interest rates, etc., as domestic banks. Occasionally, foreign countries deliberately discriminate against foreign banks in respect to these working rules, but more often the discrimination tends to be merely the uneven application of such rules to foreign and domestic banks though this in itself is rare.

The dominant picture of the way continuing regulations affect American banking abroad is that, while there are devices by which foreign countries impose handicaps on American banks, American banking does manage to operate even under these limitations.

APPENDIX

The appendix tables summarize regulations pertaining to U.S. bank entry overseas, foreign banking and exchange restrictions, and banking practices on a country-by-country basis. The tabulations are based on questionnaire surveys submitted by eleven banks with overseas branches. Twenty-six countries are covered in this analysis; only those countries for which more than one bank submitted data have been included.

The material is based on the experience and/or knowledge of the cooperating banks and is therefore not definitive. Where conflicting responses were submitted, attempts were made to reconcile the data with additional information from other sources. With the exception of Canada, any changes or modifications in country regulations subsequent to the fall of 1966 are not included in the tabulations.

TABLE I.—*Entrance and organization requirements*

Country	Highest official level with discretionary powers of approval over U.S. bank entry	Demonstration of U.S. reciprocity	Restrictions on entry most effectively imposed by—		License term	Capital requirements
			Legislation	Discretionary policy		
Europe:						
Belgium.....	Banking Commission operating under supervision of Ministry of Finance.	None required.....	(1)	(1)	No license required.....	Minimum capital requirements based on risk assets/deposits ratio, classification of bank; foreign branch capital allocation, minimum BF 10,000,000 (\$200,000). Minimum capital requirements identical to that of French banks, the amount of which varies according to type of operations, form of organization, and number of offices.
France.....	Conseil National du Credit supervised by Minister of Finance.	do.....		X	Indefinite.....	Requirement determined by Ministry of Finance (Central Credit Committee) in conjunction with issuance of license. No requirement fixed by banking law. ³
Italy.....	Ministry of Finance through Bank of Italy.	No official requirement.		X	Maximum of 99 years.....	
Germany.....	Federal Banking Supervisory Authority (Bundesaufsichtsanstalt fuer das Kreditwesen Berlin).	None required.....		(2)	Indefinite.....	
Greece.....	Ministry of Commerce with concurrence of Currency Committee. ⁴	do.....		X	do.....	Minimum of 150,000,000 drachmae (\$5,000,000). Minimum of 100,000 guilders. General guidelines specify that capital and reserves must equal 20 percent of loans and investments.
Netherlands.....	Netherlands Minister of Finance through the Bank.	do.....		X	do.....	At least 100,000,000 pesetas in cities with a population exceeding 250,000. ⁶
Spain.....	Ministry of Finance and Chief of State.....	Not officially.....	X ⁵	X ⁵	Not determined.....	Not determined.
Sweden.....	Not applicable.	Not applicable.	X	X	Not applicable.	Minimum capital for Swiss corporation is Sw F 30,000 of which 30 percent must be paid in. ⁷
Switzerland.....	Federal Council after consultation with Federal Banking Commission and the Swiss National Bank.	Effectively required.			Indefinite.....	None but full authorization would be unlikely if capital employed was less than \$1,000,000. ⁸
United Kingdom.....	Treasury through the Bank of England; no formal application is necessary.	None required.....		X	No license requirement.	Authorized capital stock of not less than Can\$1,000,000, divided into shares of Can\$10 each. ⁹
Canada.....	Parliament.....	do.....	X		Term of Bank Act—usually 10 years.	
Latin America:						
Argentina.....	Central bank.....	do.....		X	Indefinite.....	Pesos 600,000,000 (\$2,791,000) in Federal District of Buenos Aires. In other cities requirements vary according to population.

Brazil.....	Executive decree (Ministry of Finance) and National Monetary Council (president of Central bank).	Required.....	X	Usually 20 years for commercial banks; variable for other banking institutions.	Identical to requirements of domestic banks and periodically revised by Central bank. Requirements vary with location, population, number of existing banks, etc. Deposits may not exceed 15 times capital and reserves.
Chile.....	Presidential decree upon recommendation of Central bank and Superintendent of Banks.	Some demonstration required.	X	Indefinite.	Minimum of 2,000,000 escudos in Santiago area—1,000,000 in other areas—payable within 1 year of approval. ¹⁰
Mexico.....	Law of December 1955 prohibits foreign investments in financial institutions. ¹¹	Not applicable.	X	Not applicable.	As affecting existing banks, liabilities as defined, cannot exceed 15 times capital; Dollar remittance of at least \$250,000.
Panama.....	President of Republic upon recommendation of Ministry of Finance and Control Board for Banking Institutions.	None required.	X	Indefinite.	
Peru.....	Superintendent of Banks.	do.	(12)	do.	Minimum capital requirements are now approximately 25,000,000 soles, 60 percent of which may be invested in country's debt instruments.
Venezuela.....	National Executive (Ministry of Finance) through Superintendent of Banks.	do.	X	do.	Minimum paid-in capital of Bs4,000,000 if main office is located in Caracas Bs4,000,000 if located in the interior. ¹³
Asia: Hong Kong.....	Governor of colony with advice of Executive Council.	do.	X	1 year.	Capital and reserves of at least HK\$10,000,000. (Assets of branches in Hong Kong must exceed liabilities by HK\$5,000,000.)
India.....	In theory the Governor of Reserve Bank; in practice, Minister of Finance on behalf of the Government of India.	Required.	X	Variable.	Rs2,000,000 in Indian Government securities or cash plus 20 percent of annual profits which must be deposited with Reserve Bank. (There are no foreign currency requirements.)
Japan.....	Ministry of Finance.	do.	X	Indefinite.	None for branches of U.S. banks.
Lebanon.....	Council of Ministers (Cabinet) on advice of Governor of Central Bank.	None required.	X	do.	Under new banking regulations, any new American participation must be in existing Lebanese entity which must have paid-up capital of LL3,000,000.
Pakistan.....	In theory, Governor of the State Bank of Pakistan; in practice, the Minister of Finance on behalf of the Central Government.	Unofficially required.	X	Variable.	5 percent of opening deposit figure (with probable minimum of U.S. \$200,000) in U.S. dollar and sterling investments in acceptable securities ¹⁴ to be deposited with National Bank of Pakistan, New York branch, or State Bank of Pakistan.
Taiwan.....	Ministry of Finance.	None required.	X	Indefinite.	Ministry of Finance may require minimum capital. (At present U.S. \$500,000.)
Africa: Nigeria.....	Ministry of Finance in cooperation with central bank.	do.	X	do.	Minimum paid-up capital: Nigerian bank, N £12,500; foreign bank, N £200,000.
Oceania: Australia.....	Commonwealth Treasurer in cooperation with Reserve Bank of Australia.	Not applicable.	X	At the discretion of Treasury, usually indefinite.	Not applicable.

See footnotes at end of table, p. 45.

TABLE I.—*Entrance and organization requirements—Continued*

Country	Type of organization required for foreign banks to operate in country	Private banking institutions in which U.S. participation specifically not permitted	Restrictions on number of offices	Degree of participation permitted in locally organized affiliate	Restrictions on directorships held by nationals in locally organized affiliates	Country position on additional U.S. bank entry
Europe:						
Belgium	Banks are permitted to adopt any form of organization except Société Cooperative. ¹¹ No specific type required.	Not restricted.	None.	No restrictions on equity ownership.	None.	Open.
France		do.	None. The same rules and regulations apply to foreign banks as to French banks; new branches or agencies must have prior approval of the Conseil National du Crédit. None but approval is required for opening of new branches. ¹²	do.	Authorization from Ministry of Finance.	do.
Italy	do.	Not restricted by law.	None but approval must be obtained from Federal Banking Supervisory Authority for each additional office.	No legal restriction. ¹⁷	None.	do.
Germany	do.	Not restricted.	None but approval must be obtained from Federal Banking Supervisory Authority for each additional office.	No restrictions on equity ownership.	do.	do.
Greece	Locally organized affiliates.	do.	None, but prior approval of Currency Committee must be obtained for establishment of new branches.	Foreign participation limited to 40 percent.	Majority of directors, at least 60 percent, must be Greek nationals, resident in Greece.	Open only on a limited basis.
Netherlands	No specific type required but affiliates appear preferable under current regulatory climate. Locally organized affiliates.	do.	None.	Majority participations are not permitted at the present time. ¹⁸	By law, two-thirds of directorships must be held by Dutch nationals.	Open.
Spain		do.	None for commercial banks but new offices require Ministry of Finance approval. Industrial banks may not have more than 3 branches.	Up to 50 percent participation.	None officially but effectively restricted to 50 percent.	Open only on a limited basis.
Sweden	Not applicable.	No foreign participation is permitted in any banking institution. ¹⁹	Not applicable.	None.	Not applicable.	Closed.

Switzerland	No specific type required but branches or affiliates are preferable.	Not restricted, but non-Swiss may not purchase shares in existing Swiss corporations (including banks)	None, but opening of additional offices is subject to approval.	No restrictions on equity ownership.	Majority of directors must be Swiss citizens, domiciled in Switzerland.	Open, with reservation. ²⁰
United Kingdom	No specific type required but branches are the normal form.	Not restricted. ²¹	None	do	None, but any holding in a United Kingdom corporation by a non-resident of the scheduled territories must have prior approval. A Canadian bank cannot have less than 5 directors; the majority must be "subjects of Her Majesty, ordinarily resident in Canada." ²²	Open.
Canada	Locally organized affiliate (chartered bank). ²³	do	do	(23)	Effectively closed.	
Latin America: Argentina	No specific type required.	do	None officially, but foreign banks are not allowed to establish new branches outside Buenos Aires. ²⁴	No restrictions on equity ownership.	No known restrictions.	Open on limited basis. ²⁵
Brazil	do. ²⁷	do	As applicable to all banks, the number of offices is dependent upon bank's capital funds and prior authorization by central bank. ²⁸	No legal restrictions on equity ownership. ²⁹	Directors should be residents of Brazil.	do. ³⁰
Chile	do	Not determined.	None, but approval must be obtained from Superintendent of Banks. ³¹	Majority participations (up to 100 percent) are permitted.	None at present.	Open.
Mexico	Not applicable.	No foreign participation is permitted in banks, financieras, insurance companies, or underwriting firms.	Not applicable.	Not applicable.	None as affecting existing banks.	Closed.
Panama	No specific type required.	do	None.	No restrictions on equity ownership.	None.	Open.
Peru	do.	Not restricted.	None specifically stated but in practice limited to needs of service area.	No restrictions; 100 percent foreign ownership permitted.	Portion of directorships must be held by Peruvian nationals.	do.
Venezuela	do. ³²	do	None, but each branch requires separate approval.	No apparent restriction on amount of capital contributed by foreign owners but degree is at the discretion of authorities.	No specific reference in banking law but presumably directors would have to be residents of Venezuela.	Government is believed not to be encouraging further U.S. bank investments. ³³

See footnotes at end of table, p. 45.

TABLE I.—*Entrance and organization requirements—Continued*

Country	Type of organization required for foreign banks to operate in country	Private banking institutions in which U.S. participation specifically not permitted	Restrictions on number of offices	Degree of participation permitted in locally organized affiliate	Restrictions on directorships held by nationals in locally organized affiliates	Country position on additional U.S. bank entry
Asia:						
Hong Kong.....	No specific type required.	Not restricted.	None.	No restrictions on equity ownership.	None.	Open.
India.....	do.	do.	No official restrictions but permission of reserve bank is required for opening of each branch.	Participation permitted.	Not determined.	do.
Japan.....	Branch or Kabushiki Kaisha (Japanese corporation). ³¹	do.	Each office requires Ministry of Finance approval. ³²	Total foreign ownership may not exceed 10 percent where capital stock is listed on Japanese Stock Exchange; if stock is not listed, degree of participation is subject to prior approval by Ministry of Finance.	None.	Not determined.
Lebanon.....	Any further U.S. entry must be through an existing Lebanese corporation. ³⁷	do.	Any new branches or offices must have prior approval of Lebanese authorities. ³⁷	Minority Lebanese interest is acceptable.	Majority should be Lebanese nationals (not related to actual stock membership).	Restricted. ³³
Pakistan.....	No specific type required.	do.	Each office requires approval of State Bank of Pakistan.	Participation permitted.	Not determined.	Open.
Taiwan.....	Either branches (essentially operating as agencies) or affiliates.	do.	None officially, but at present, number is restricted by policy to one.	No restrictions on equity ownership.	None.	Not determined but believed to be still open.
Africa: Nigeria.....	No specific type required.	do.	None.	do.	None, but it is advisable to have at least one Nigerian director.	Open. ³⁹
Oceania: Australia.....	Applications by U.S. banks for licenses to carry on general banking activities have consistently been turned down by the Treasurer. ⁴⁰	Commercial banks; i.e., any institution carrying checking accounts.	do.	Not applicable to commercial banks. No restrictions on equity ownership in other types of financial institutions.	None.	Closed.

- ¹ No restrictions on entry.
- ² Restrictions are not discretionary in the sense that authorities discriminate against entry of foreign banks. Same principles apply to all banks.
- ³ Capital funds must be what is considered "adequate" by banking authorities and are based on lending volume. Currently the ratio is 1:18.
- ⁴ Currency Committee is composed of the Cabinet Ministers and the Governor of the Bank of Greece.
- ⁵ Legislation and discretionary policy are equally important in the restriction of foreign bank entry.
- ⁶ Present legislation does not provide for the establishment of branches of foreign banks or their majority participation in a Spanish bank.
- ⁷ Federal banking law of 1934 requires and 1/20 of annual profits be credited to reserves until amount equals 1/4 of capital. Where no capital is assigned, same annual proportion must be credited to reserves until reserves equal 1/4 of deposits.
- ⁸ U. S. banks must be in a position to show capital structure and assets if requested.
- ⁹ Directors must be absolute and sole owners of specific amounts of the issued stock based on the size of the bank's paid-up capital.
- ¹⁰ Capital must be comparable to that of other banks in a given service area.
- ¹¹ Law prohibiting entry of foreign financial institutions is not retroactive and thus does not apply to established foreign branches or affiliates.
- ¹² Not determined.
- ¹³ Twenty percent of annual profits must be transferred to capital reserve account until reserves reach 50 percent of paid-in capital; 10 percent of profits must then be deposited annually until reserves reach 75 percent of paid-in capital.
- ¹⁴ Acceptable securities include issues of United States Government, United Kingdom Government, Pakistani Government guaranteed issues, and IFRD issues.
- ¹⁵ Local affiliates are not required but in the past the Commission Bancaire recommended that certain foreign banks operate by subsidiary form, organized under Belgian law, with liabilities insured by the parent bank.
- ¹⁶ Approval for opening of additional branches is difficult to obtain even for domestic banks.
- ¹⁷ Degree of participation in locally organized affiliate is closely scrutinized by central bank which may withhold approval when degree of foreign ownership is not politically acceptable.
- ¹⁸ The percentage of minority interest allowed is at the discretion of the central bank, but as a general rule the larger the affiliate the smaller the foreign ownership permitted.
- ¹⁹ Swedish law requires all bank shareholders in Sweden to be Swedish citizens or Swedish companies and associations.
- ²⁰ Native competition and dislike for American bank branch entry makes it difficult or entrant to operate unless local cooperation can be achieved.
- ²¹ It is unlikely that permission would be granted for participation in a discount house or in foreign exchange and deposit brokerages.
- ²² Banking in Canada must be conducted under the provisions of the Bank Act which does not provide for agencies or branches of foreign banks.
- ²³ The revised Bank Act adopted in 1967 limits a single holding to 10 percent, whether it be a foreign or domestic group, and total foreign ownership to 25 percent. The 10 percent and 25 percent limitations do not require divestiture by holders presently in excess of this limitation.
- ²⁴ The revision to the Bank Act specifies that at least 3/4 of the directors must be Canadian citizens resident in Canada.
- ²⁵ The opening of branches of banks operating in Argentina is rigidly controlled on the basis of bank density and population. New branching is very difficult.
- ²⁶ Country is effectively opened to further U. S. bank entry but not on branch basis.
- ²⁷ Locally organized affiliate is the most frequently used form of organization by foreign banks because of difficulty in securing permit to open direct branch or agency.
- ²⁸ Normally foreign banks are not granted permission to open more than one branch or agency per city.
- ²⁹ Foreign majority interest in locally organized affiliate may make opening permit difficult to obtain.
- ³⁰ Country is closed only to direct branches of foreign banks.
- ³¹ The opening of additional offices is dictated by needs of service areas. Branches are presently being approved only for the Santiago and Valparaiso areas.
- ³² It is difficult for a foreign bank to obtain permission to open a branch or agency in Venezuela. In establishing affiliates, U. S. banks probably could contribute only up to 49 percent.
- ³³ Superintendent of Banks is seeking restrictions to limit capital investment by foreigners in indigenous institutions.
- ³⁴ At present all foreign banks in Japan operate as branches.
- ³⁵ It is almost impossible for any one bank to obtain approval to open additional branch offices at present.
- ³⁶ There are branches of three U. S. banks now operating in Lebanon which were established prior to the new regulations.
- ³⁷ Branches currently are restricted to existing number by discretionary policy.
- ³⁸ The Lebanese Government has announced that new banking licenses will not be issued for the time being. Establishment of new branches will not be permitted but purchase up to 100 percent in existing entities is permitted.
- ³⁹ Nigeria is open to additional U. S. bank entry but country is generally considered overbanked.
- ⁴⁰ It is possible to enter Australia through a finance company affiliate.

TABLE II.—*Banking and exchange regulations*

Country	Investment requirements in national debt instruments	Deposit balance requirements in treasury, central bank, or clearing banks	Investment requirements in development banks, etc.	Banking authority requirements as applied to foreign banks				Prohibitions on types of loans extended by foreign banks not applicable to domestic banks	Application of foreign exchange restrictions on foreign banks
				Reserve requirements or liquidity restrictions (1)	Lending restrictions (2)	Informal agreements on deposit and loan interest rate limits (3)	Banking regulations (1), (2), (3) equally enforced on foreign and domestic banks (4)		
Europe: Belgium.....	Regulations suspended in 1962.	Commission Bancaire has authority to impose monetary reserve coefficient. There is no requirement at present. ¹	None.	Yes.	Yes.	Yes.	Yes.	None.	As applied to domestic banks.
France.....	Banks are required to invest at least 5 percent of deposits in treasury bills.		None.	Yes.	Yes.	Yes—Minimum limits on deposit rates are set by Conseil National du Credit and imposed by Association Professionnelle des Banques.	Yes.	None.	Do.
Italy.....	Informal. ²	A deposit balance must be maintained with the Bank of Italy at a percentage rate (currently 22.5 percent) determined by Inter-Ministerial Committee on Credit and Savings. Minimum reserve requirement with central bank which is applicable to all banks.	None.	Yes.	Yes.	Not informal. There is an interbank agreement which must be followed by domestic and foreign banks. Yes—No informal agreements exist at present.	Yes.	None.	Do.
West Germany.	None.		None.	Yes.	Yes.		Yes.	None.	As applied to domestic banks. (No foreign exchange restrictions are in effect at present.)

Greece-----	As part of re- serve require- ments.	As part of reserve requirements.	None. ³	Yes.	Yes.	Yes.	All rates are subject to maxi- mum fixed by regulation. Not deter- mined.	Yes.	None.	As applied to domestic banks.
Nether- lands.	None.	(1) Reserves must be deposited with central bank; requirements are set at the discretion of central bank. (General level is 10 percent for time deposits; 30 percent for demand). (2) When bank ex- ceeds credit ceiling, an amount equal to excess must be deposited with central bank. Yes.	None.	Yes.	Yes.	Yes.		Restrictions set by central bank can vary considerably from bank to bank.	None.	Do.
Spain-----	As part of liquidity ratio, 15 percent of total deposits must be invested in Span- ish Government obligations		None.	Yes.	Yes.	Yes.	Rates are set by decree.	Yes.	None.	Do.
Sweden----- Switzerland.	Foreign banks are not permitted to establish branches or subsidiaries. None.	None officially. Through "gentlemen's agreement," nonresi- dents comply with liquidity ratios and Swiss franc deposit requirements. None. Clearing bank accounts are maintained for working purposes only.	None.	Yes.	Yes.	Yes.	Yes.	Yes. ⁴	None.	Do.
United Kingdom.	None.		None.	Yes under (1) exchange control regu- lations and (2) request from Bank of England that advances should not exceed 115 percent of outstandings on Mar. 31, 1965	None.	Yes (2) and (3). (1) is applicable to clearing banks only.	None.	Yes (2) and (3). (1) is applicable to clearing banks only.	None, with the exception of special dis- count facili- ties for fi- nancing longer term export trans- actions cov- ered by the Government Credit In- surance Agency which are available to British banks only.	Do.

See footnotes at end of table, p. 50.

TABLE II.—*Banking and exchange regulations—Continued*

Country	Investment requirements in national debt instruments	Deposit balance requirements in treasury, central bank or clearing banks	Investment requirements in development banks, etc.	Banking authority requirements as applied to foreign banks					Prohibitions on types of loans extended by foreign banks not applicable to domestic banks	Application of foreign exchange restrictions on foreign banks
				Reserve requirements or liquidity restrictions	Lending restrictions	Informal agreements on deposit and loan interest rate limits	Banking regulations (1), (2), (3) equally enforced on foreign and domestic banks	(4)		
Canada.....	Not officially.	Bank Act of 1967 requires chartered banks to keep cash reserves with central bank at an average of 8 percent of demand deposits and 4 percent of time deposits. Secondary reserves as set by Bank of Canada must also be maintained.	None.	Yes.	Yes.	Yes.	Yes.	Yes.	None.	As applied to domestic banks.
Latin America: Argentina.....	None.	Minimum reserve balances must be deposited in Banco Central de Argentina.	None.	Yes.	Yes.	No. All regulations are established by the central bank for general application.	Yes.	Yes.	None.	Do.
Brazil.....	None.	Reserve must be deposited with Banco do Brazil, as well as cash holdings in excess of 20 percent of deposits. Reserves are deposited with central bank.	None.	Yes.	Yes.	Yes.	Yes.	Yes.	None.	Do.
Chile.....	Not officially but banks may invest in Government obligations of all types without limitation.		None.	Yes.	Yes.	Yes. All banks observe the legal deposit and loan interest ceiling.	Yes.	Yes.	None.	Do.

Mexico.....	Capital and re- serves must be in- vested in assets payable in Mex- ico.	Existing foreign banks must maintain deposit balances with Banco de Mexico.	Banking law of 1965 prohibits in- vestment in any kind of financial in- stitution.	Yes.	Yes.	None.	Yes. For- eign bank op- erations es- tablished prior to 1965 law are subject to national regulations. Yes.	None.	Do.
Panama.....	None.	None.	None.	Yes.	Yes.	None in effect.	Yes.	None.	There are no exchange re- strictions. As applied to domestic banks.
Peru.....	None. ³	Legal cash reserves must be deposited with central bank.	None.	Yes.	Yes.	No informal agreements. All banks ob- serve legal ceil- ing for deposit and loan inter- est rates. Yes.	Yes.	None.	Do.
Venezuela...	No official re- quirement. ⁵	At least 2½ of cash re- serves must be held in central bank.	None.	Yes.	Yes.	Yes.	Yes; but discretionary.	None.	Do.
Asia: Hong Kong.	None.	Not determined.	None.	Yes.	Yes.	Yes.	Yes.	None.	As applied to domestic banks of the same classi- fication.
India.....	Twenty-five percent of total deposits are re- quired to be in- vested in Gov- ernment securi- ties. ⁷	3 percent of total de- posits must be deposited with central bank. ⁸	None.	Yes.	Yes.	Effectively applied.	Yes.	None.	As applied to domestic banks.
Japan.....	None.	Up to 10 percent of deposits must be held at the cen- tral bank. At present the rates range from 0.25 percent to 0.5 percent for time deposits and 0.5 percent to 1 per- cent for demand deposits.	None.	Yes.	Yes.	No.	Yes.	None.	Domestic banks may issue foreign exchange con- tracts up to one year. Foreign banks are re- stricted to contracts of six months.
Lebanon.....	None.	Not enforced at present but central bank is authorized to impose reserve require- ments. (Maximum of 25 percent on demand deposits and 15 percent on time deposits.)	None.	Yes, al- though none are currently in force.	Yes, (None are now in effect.)	None in effect.	Yes.	None.	As applied to domestic banks. (None now in effect.)

See footnotes at end of table, p. 50.

TABLE II.—*Banking and exchange regulations*—Continued

Country	Investment requirements in national debt instruments	Deposit balance requirements in treasury, central bank, or clearing banks	Investment requirements in development banks, etc.	Banking authority requirements as applied to foreign banks				Prohibitions on types of loans extended by foreign banks not applicable to domestic banks	Application of foreign exchange restrictions on foreign banks
				Reserve requirements or liquidity restrictions	Lending restrictions	Informal agreements on deposit and loan interest rate limits	Banking regulations (1), (2), (3) equally enforced on foreign and domestic banks		
Asia—Con. Pakistan.....				(1)	(2)	(3)	(4)		
		Cash reserves must be kept in State Bank.	None.	Yes.	Yes.	Effectively applied.	Generally yes. ⁹	None.	As applied to domestic banks.
Taiwan.....		Reserve requirements must be met.	None.	Yes.	Yes.	Yes.	Yes.	None.	Do.
Africa: Nigeria	To the extent that capital requirements may be met through investments in Pakistani Government issues. ¹⁰	Account is required with central bank.	None.	Yes, there is a 25 per cent liquidity ratio.	Yes, a limitation of 25 per cent of paid-in capital for any one loan.	Yes, with the exception of an informal tariff agreement among 5 major banks which is not applicable to U.S. banks.	Yes.	None.	Do.
Oceania: Australia.	Yes.	Yes.	None.	Not applicable.	Not applicable.	Not applicable.	Not applicable.	None.	Do.

¹ Monetary reserve coefficient was used in 1964 and early 1965.

² Government occasionally uses moral suasion over Italian banks to purchase debt instruments. This probably could apply to U.S. banks.

³ Foreign banks are expected to utilize dividends which they are not permitted to transfer out of Greece for long-term loans under terms set by the Currency Committee.

⁴ To the extent that banking authority regulations are disproportionately directed toward foreign business, foreign banks, tending to have large foreign businesses, suffer to a similar degree.

⁵ Up to 60 percent of initial capital may be invested in country's debt instruments.

⁶ The Ministry of Finance has been known to request informally that banks invest in public works bonds.

⁷ Only Government of India securities are acceptable as approved securities for capital and liquidity requirements.

⁸ In addition, capital requirement.

⁹ 25 percent statutory requirement.

¹⁰ Restrictions on the maximum rates of interest that may be paid on time deposits are not enforced and are violated by domestic banks. The branches of foreign banks generally observe the restrictions and are at a disadvantage in attracting deposits.

¹¹ There is a nominal requirement for investment in patriotic bonds for import tax.

¹² It is expected that banks will maintain a treasury bill portfolio.

TABLE III.—Operational regulations and practices

Country	Authorized banking functions as applicable to foreign banks					Foreign bank access to services of central banks, clearing banks, deposit insurance, etc. (to extent available)
	Demand deposit solicitation from nationals	Time or savings deposit solicitation from nationals	Lending to nationals	Trust activities	Underwriting	
Europe:						
Belgium.....	Yes.	Yes.	Yes.	Yes; concept of trusteeship not provided by Belgian law.	Restricted. (Securities cannot be held longer than 6 months.)	Equally available to foreign and domestic banks with one exception Institut de Reescompte et de Garantie does not give foreign lines for overdrafts to foreign banks.
France.....	Yes.	Yes.	Yes.	No; trusteeship does not exist under French law.	Yes.	Equally available to foreign and domestic banks.
Italy.....	Yes.	Yes.	Yes.	Yes; but not by commercial banks.	Yes; but not by commercial banks.	Do.
Germany.....	Yes. ¹	Yes. ¹	Yes.	Yes; within framework of German customs.	Yes.	Do.
Greece.....	Yes.	Yes.	Yes.	Yes.	Yes.	Equally available to foreign and domestic banks except rediscount facilities which are not normally available to foreign banks.
Netherlands.....	Yes. ²	Yes. ²	Yes. ²	Yes; locally organized affiliate.	Yes; locally organized affiliate.	Yes; at central bank (Clearing Bank members). Association does not accept new members.
Spain.....	Yes.	Yes.	Yes.	Yes.	Yes; but only by industrial banks or financieras, not commercial banks.	Equally available to domestic and foreign banks.
Sweden	Foreign banks are not permitted to establish branches or subsidiaries.					Do.
Switzerland.....	Yes.	Yes; time deposits.	Yes.	Yes.	Yes. ³	Generally these are equally available to foreign banks but this applies to services as available to nonclearing banks.
United Kingdom.	Yes.	Yes.	Yes.	Yes; but branches have limited powers while subsidiaries have full powers.	Yes.	Equally available to domestic and foreign controlled banks.
Canada.....	Yes.	Yes.	Yes.	Limited.	Limited (Federal, provincial, municipal, and corporate Canadian bonds).	

See footnotes at end of table, p. 56.

TABLE III.—*Operational regulations and practices—Continued*

Country	Authorized banking functions as applicable to foreign banks					Foreign bank access to services of central banks clearing banks deposit insurance, etc. (to extent available)
	Demand deposit solicitation from nationals	Time or savings deposit solicitation from nationals	Lending to nationals	Trust activities	Underwriting	
Latin America:						
Argentina.....	Yes.	Yes.	Yes.	Yes.	Yes.	Equally available to foreign and domestic banks.
Brazil.....	Yes.	Yes, time deposits.	Yes.	Unknown in Brazil.	Restricted.	Do.
Chile.....	Yes.	Yes, time deposits.	Yes.	Limited.	No.	Do.
Mexico.....	Yes.	Yes; time deposits.	Yes.	Yes; for assets held in United States.	No; but approval may be obtained.	Do.
Panama.....	Yes.	Yes.	Yes.	Yes; subject to charter.	Yes; subject to charter.	Do.
Peru.....	Yes.	Generally; time only.	Yes.	Restricted.	No.	Do.
Venezuela.....	Yes.	Yes.	Yes.	Yes.	Restricted.	Equally available to foreign and domestic banks but Central Bank would hesitate to rediscount for foreign banks.
Asia:						
Hong Kong.....	Yes.	Yes.	Yes.	Yes.	No.	Equally available to foreign and domestic banks of the same class.
India.....	Yes.	Yes.	Yes.	Yes.	Yes.	Equally available to foreign and domestic banks.
Japan.....	Yes.	Yes.	Yes.	Restricted.	Restricted.	With exceptions, these are generally available to foreign banks. Discount and other financial facilities are not generally made available to foreign banks as a matter of policy.
Lebanon.....	Yes.	Yes.	Yes.	Yes; but there is no trust law as such.	Yes.	Equally available to foreign and domestic banks.
Pakistan.....	Yes.	Yes.	Yes.	Yes.	Yes.	Do.
Taiwan.....	No.	No.	Yes.	No.	No.	Do.
Africa: Nigeria.....	Yes.	Yes.	Yes.	Yes.	Yes.	Do.
Oceania: Australia.....	Not applicable.	Not applicable.	Yes.	Not applicable.	Yes.	Not applicable.

TABLE III.—Operational regulations and practices—Continued

Country	Examination of foreign banks by banking authority	Foreign bank access to courts	Provisions for prior claim on assets by nationals	Requirements on number of nationals employed	Nonbank reports or regulations required by banks as foreign-owned or controlled entities	Most restrictive regulations imposed on U.S. banks
Europe: Belgium-----	On a regular basis.	Same basis as domestic banks.	None.	None; but citizens of some foreign countries must have prior approval of the Ministry of Labor and Employment. High percentage of French nationals.	None.	No major restrictions on U.S. banks per se. ⁴
France-----	On a regular basis. (Same audit and inspection as imposed on French banks.)	Do.	None.		None.	No special restrictions applicable to U.S. banks. ⁵
Italy-----	On a regular basis by Bank of Italy.	Do.	None.	None; but non-Italian staff members must obtain work permits. None.	None.	Obtaining of license. ⁶
Germany-----	On a regular basis.	Do.	None.	No known restriction but aliens must obtain residence and work permits which are generally granted only to those who have skills not readily available in Greece.	None.	No restrictions applicable to U.S. banks per se. ⁷
Greece-----	On a regular basis.	Do.	None.	None; but foreign nationals require employment permit which is readily obtainable.	None.	(1) Lack of rediscount facilities. (2) Restrictions on remittance of dividends. ⁸
Netherlands-----	On a regular basis.	Do.	None.		None.	(1) Credit restrictions imposed on both foreign and domestic banks prevent development of local loans by newly established banks. (2) Capital ceilings imposed by central bank on foreign branches. (1) Maximum term of commercial bank loans which is now only 18 months. (2) Restriction on degree of participation in locally organized affiliate.
Spain-----	On a regular basis.	Do.	None.	Not determined.	None.	(1) Informal but effective competitive restrictions imposed by local banks. (2) Working permits.
Sweden-----	Foreign banks are not permitted to establish branches or affiliates.	Foreign banks are not permitted to establish branches or affiliates.	None.	One of the managers must be Swiss. Working permits for foreigners are strictly controlled and issued only upon demonstration that functions cannot reasonably be fulfilled by Swiss nationals.	None.	
Switzerland-----	Examination by outsiders is contrary to banking secrecy law. Bank records are regularly examined by resident auditors approved by Federal Banking Commission.	Same basis as domestic banks.				

See footnotes at end of table, p. 56.

TABLE III.—Operational regulations and practices—Continued

Country	Examination of foreign banks by banking authority	Foreign bank access to courts	Provisions for prior claim on assets by nationals	Requirements on number of nationals employed	Nonbank reports or regulations required by banks as foreign-owned or controlled entities	Most restrictive regulations imposed on U.S. banks
Europe—Con. United Kingdom.	None; but balance sheets are submitted periodically.	Same basis as domestic banks.	None.	None directly but a United Kingdom national should be employed whenever possible.	None when operating unit is a branch; subsidiaries must file accounts with Registrar of Companies.	No restrictions applied to U.S. banks per se. ⁹
Canada-----	On an annual basis.	Do.	None.	None.	None.	(1) Legislation limiting foreign ownership to 10-percent interest by any group, whether foreign or domestic. Total foreign ownership is limited to 25 percent. (2) Absence of any provision in Bank Act for foreign agency or branch banking.
Latin America: Argentina-----	On a regular basis.	Do.	None.	None.	None.	(1) Initial high capital requirement. (2) Difficulty in establishing additional branches especially in interior. (1) Branch expansion by foreign banks. (2) Restrictions on profit remittances. ¹⁰
Brazil-----	On a regular basis.	Do.	None; local creditors whether national or foreign, have preference.	Two-thirds of total salary expense must be paid to nationals or certain legal equivalents of nationals. Percentage of salaries paid to foreigners is restricted.	None.	Negotiation with banking authority as to initial capitalization and initial reserve requirement. ¹¹
Chile-----	Do.	Do.	None.	At least 90 percent of officers and employees must be Mexican. Executive discretion on prohibiting entry of foreigners can effectively reduce this ratio. (Foreign nationals can only be employed if it is demonstrated that local personnel are unable to perform functions.)	None.	Law restricting any form of participation in a financial institution after December 1965.
Mexico-----	Do.	Do.	None.	Three-quarters of total salary expense must be paid to nationals and at least 75 percent of employees must be nationals.	None.	
Panama-----	None.	Do.	None.		None.	None regarded as discriminatory or unduly restrictive.

	On a regular basis.	Do.	None.	High percentage of staff must be nationals.	None.	(1) High cash reserve requirement. (2) Non-access to savings market. (3) Obtaining authorization to establish a foreign bank or to expand. (2) Restrictions against non-Venezuelan employees.
Peru.....	Do.	Do.	None.	At least 75 percent of officers and staff must be Venezuelan. Exceptions can be made (with approval) if qualified personnel is not available.	Not generally, but compliance with formalities in Commercial Code is required of branches.	
Venezuela.....	Do.	Do.	None.	None.	None.	
Asia:						
Hong Kong.....	Theoretically on a regular basis.	Do.	None.	No legal requirements but foreign banks are encouraged to keep expatriate staff at minimum levels. ¹²	A few miscellaneous reports are required in connection with foreign exchange obligations and expatriate personnel.	No major restrictions on U.S. banks. (1) Exchange control regulations (2) Branching policy which tends to limit foreign banks to major cities and to favor British banks. (3) Reliance on the part of Reserve Bank officials to give timely and definitive interpretations of various statutes, regulations and policies pertaining to banking procedures. (1) Virtual impossibility of obtaining approval for additional offices. (2) Lack of discount facilities at the central bank.
India.....	On a regular basis.	Do.	None.			
Japan.....	Do.	Do.	None.	None.	None.	(1) Present regulation confining entry into Lebanese market to purchase into existing facility. (2) Impossibility of having more than 1 branch or office. (3) Requirement pertaining to employment of nationals. (1) Restrictions on the maximum rates of interest that may be paid on time deposits which foreign banks observe and which is violated by domestic banks. (2) System of exchange control. (3) Capital requirements for banks incorporated outside Pakistan. Ban against acceptance of deposits from the public.
Lebanon.....	None. (Banking secrecy law 1956.) Independent audits are submitted to central bank.	Do.	None.	In principle, 100 percent of staff must be Lebanese, but certain percentage of administrative officers may be foreign. Ratio of Lebanese employees is usually 30:1.	Report on foreign nationals employed.	
Pakistan.....	On a regular basis.	Do.	None.	Pakistanization policy requires minimum percentage of country's nationals.	None.	
Taiwan.....	Do.	Do.	None.	None.	None, generally. (Investment in locally organized affiliate must be approved per foreign investment law.)	

See footnotes at end of table, p. 56.

TABLE III.—Operational regulations and practices—Continued

Country	Examination of foreign banks by banking authority	Foreign bank access to courts	Provisions for prior claim on assets by nationals	Requirements on number of nationals employed	Nonbank reports or regulations required by banks as foreign-owned or controlled entities	Most restrictive regulations imposed on U.S. banks
Africa: Nigeria	On a supposedly regular basis. Audits are few, due to lack of trained personnel.	Same basis as domestic banks.	None.	None formally, but banks must have government approval to employ expatriates and they are required to adhere to the "Nigerianization plan" administered by the immigration authorities.	None.	None. Restrictions are non-discriminatory since they apply equally to national and foreign banks.
Oceania: Australia	Not applicable.	Do.	None.	None.	Not applicable.	U.S. banks have not been permitted to establish banking offices including branches. (Only recently have they been allowed to open representatives' offices.)

¹ Although there are no restrictions on a foreign bank carrying demand and time accounts for German nationals, all banks must adhere to certain orders and agreements including an agreement on competitive practices.

² Deposit solicitation and lending to nationals is subject to license from central bank which is readily given.

³ Although underwriting is open to foreign banks, engaging in this activity is at the risk of incurring the enmity of local competitors with potentially adverse results.

⁴ Recent ceiling imposed on increased extension of total credit—applicable to all Belgian and non-Belgian banks—is the most restrictive regulation at the present time.

⁵ Establishing an investment bank is virtually impossible. Many banking operations common in the United States cannot be currently carried out in France: e.g., mortgage financing, factoring, trust operations, estate administration, etc.

⁶ Difficulties arising in obtaining a license may result from Government attempt to limit the number of banks which is considered too high. Also, there is resentment by Italian banks motivated by fear of competition from new American banks establishing in Italy.

⁷ Close and restrictive regulation by governmental authorities might be considered the most difficult restriction but this close surveillance applies on a "big bank-little bank basis" rather than "foreign-native dimension."

⁸ Remittance of dividends currently limited to 3 percent (presumably of capital) and subject to approval by the Currency Committee.

⁹ Internal credit restrictions and United Kingdom exchange control regulations which apply equally to domestic and foreign banks are the most difficult restrictions at the present time.

¹⁰ Foreign banks have had difficulty in securing permission to open new branches in other cities although nationwide branch banking is open to domestic banks. Affiliates incorporated in Brazil, however, function in all respects as domestic banks, regardless of the degree of foreign ownership.

¹¹ Reserves required to be maintained against deposits are abnormally high. This applies only to establishment of new branches.

¹² The renewal of visas and applications for new visas are occasions when progress is reviewed and pressure may be applied to reduce expatriate staff.

¹³ The emoluments and other service conditions applicable to Pakistani employees should be the same as those of non-Pakistani employees in the same salary bracket with exception of overseas allowances for the latter.