

under section 25(a) of the Federal Reserve Act) in the stock or other evidences of ownership of all foreign banks and other financial entities, taken together with investments by the bank in the shares of corporations organized under section 25(a) of the Federal Reserve Act, shall not exceed 25 percent of the bank's capital and surplus.

(b) *Acquisitions to prevent loss.* Nothing contained in this part shall prevent the acquisition and holding of stock or other evidences of ownership in a foreign bank or other financial entity where such acquisition is necessary to prevent a loss upon a debt previously contracted in good faith; but such stock or other evidences of ownership shall be disposed of within 12 months from the date of acquisition unless the time is extended by the Corporation.

(c) *Limitations.* Stock or other evidences of ownership in a foreign bank or other financial entity shall be disposed of as promptly as practicable if: (1) Such bank or other financial entity should engage in the business of underwriting, selling, or distributing securities in the United States or (2) the insured State nonmember bank is advised by the Corporation that its holding is inappropriate under this part. The terms *stock*, *shares*, and *evidences of ownership* in this section include any right to acquire stock, shares, or evidences of ownership, except that prior Corporation consent is not required for the acquisition and exercise of stock rights in lieu of dividends which are declared on shares already held by an insured State nonmember bank and which do not result in an increase in percentage ownership of the foreign bank or other financial entity.

(d) *Required information.* An insured State nonmember bank may apply for the consent of the Corporation to acquire and hold, directly or indirectly, the stock or other evidences of ownership in a foreign bank or other financial entity by filing the information specified in §303.5(c). The Corporation hereby grants its general consent for any insured State nonmember bank having stock or other evidence of ownership in a foreign bank or other financial entity that was acquired prior to March 10, 1979 to continue holding such

stock or evidence without application for specific approval provided it does not conflict with the provisions of this part and the following information is submitted (unless already submitted) within 90 days from April 30, 1979: Name and location of bank or other financial entity; number, type and par value of shares held, percentage of total voting shares outstanding, and, if different, percentage of total equity, historical cost, current carrying value and any premium paid that has not been amortized; description of the company activities, principal locations, subsidiaries and affiliates (including company locations, subsidiaries and affiliates in the United States), and any activity that is not of a banking or financial nature; recent balance sheets and income statements; and amount of any credit extended to the subsidiary or affiliate and description of any contracts with company (including management or service contracts).

(e) *Reports.* An insured State nonmember bank shall immediately inform the Corporation, through the Regional Director of the region in which the bank is located, of any acquisition or disposition of stock in a foreign bank or other financial entity, including the cost and number of shares acquired pursuant to this section.

[44 FR 25195, Apr. 30, 1979, as amended at 50 FR 22985, May 30, 1985]

#### **§347.5 Loans or extensions of credit to foreign banks or other financial entities.**

An insured State nonmember bank which holds directly or indirectly<sup>3</sup> stock or other evidences of ownership in a foreign bank or other financial entity may make loans or extensions of credit to or for the account of such foreign bank or other financial entity without regard to the provisions of 12 U.S.C. 1828(j).

#### **§347.6 Conditions.**

(a) *Records, controls and reports.* An insured State nonmember bank exercising any powers under this part shall maintain a system of records, controls

<sup>3</sup>Whether through a corporation organized under section 25(a) of the Federal Reserve Act, or otherwise.

and reports that, at minimum, provide for the following:

(1) *Risk assets.* To permit assessment of exposure to loss, information furnished or available to the main office should be sufficient to permit periodic and systematic appraisals of the quality of loans and other extensions of credit. Coverage should extend to a substantial proportion of the risk assets in the branch or subsidiary, and include the status of all large credit lines and of credits to customers also borrowing from other offices of the bank. Information on credit extensions should include:

- (i) A recent financial statement of the borrower and current information on the borrower's financial condition;
- (ii) Credit terms, conditions, and collateral;
- (iii) Data on any guarantors;
- (iv) Payment history; and
- (v) Status of corrective measures employed.

(2) *Liquidity.* To enable assessment of local management's ability to meet its obligations from available resources, reports should identify the general sources and character of the deposits, borrowing, etc., employed in the branch or subsidiary with special reference to their terms and volatility. Information should be available on sources of liquidity—cash, balances with banks, marketable securities, and repayment flows—such as will reveal their accessibility in time and any risk elements involved.

(3) *Contingencies.* Data on the volume and nature of contingent items such as loan commitments and guaranties or their equivalents that permit analysis of potential risk exposure and liquidity requirements.

(4) *Controls.* Reports on the internal and external audits of the branch or subsidiary in sufficient detail to permit determination of conformance to auditing guidelines. Such reports should cover:

- (i) Verification and identification of entries on financial statements;
- (ii) Income and expense accounts, including descriptions of significant chargeoffs and recoveries;
- (iii) Operations and dual-control procedures and other internal controls;

(iv) Conformance to head office guidelines on loans, deposits, foreign exchange activities, proper accounting procedures, and discretionary authority of local management;

(v) Compliance with local laws and regulations; and

(vi) Compliance with applicable U.S. laws and regulations.

(b) The bank shall submit an annual report of condition for each foreign branch pursuant to instructions provided by the Corporation.

(c) The Corporation may from time to time require an insured State non-member bank to make and submit such reports and information as may be necessary to implement and enforce the provisions of this part.

## PART 348—MANAGEMENT OFFICIAL INTERLOCKS

Sec.

348.1 Authority, purpose, and scope.

348.2 Definitions.

348.3 Prohibitions.

348.4 Interlocking relationships permitted by statute.

348.5 Regulatory Standards exemption.

348.6 Management Consignment exemption.

348.7 Change in circumstances.

348.8 Enforcement.

AUTHORITY: 12 U.S.C. 3207, 12 U.S.C. 1823(k).

SOURCE: 61 FR 40305, Aug. 2, 1996, unless otherwise noted.

### § 348.1 Authority, purpose, and scope.

(a) *Authority.* This part is issued under the provisions of the Depository Institution Management Interlocks Act (Interlocks Act) (12 U.S.C. 3201 *et seq.*), as amended.

(b) *Purpose.* The purpose of the Interlocks Act and this part is to foster competition by generally prohibiting a management official from serving two nonaffiliated depository organizations in situations where the management interlock likely would have an anti-competitive effect.

(c) *Scope.* This part applies to management officials of insured nonmember banks and their affiliates.

### § 348.2 Definitions.

For purposes of this part, the following definitions apply: