OPERATIONS OF FOREIGN FINANCIAL INSTITUTIONS IN THE UNITED STATES

FOREIGN BANKS

Activities of Foreign Banks in the United States

Foreign banks initially entered U.S. markets to serve primarily the banking needs of U.S. affiliates of their home country customers, much the same reason for the initial expansion overseas by U.S. banks. Foreign banks also have been attracted to the United States because of the depth and liquidity of U.S. money and capital markets and because of the role of the U.S. dollar in international trade. The presence of foreign banks has contributed importantly to the depth and liquidity of U.S. financial markets. In times of constraints on lending by U.S. banks, active participation by foreign banks in the United States has improved the supply of credit to U.S. companies.

Foreign banks have a wide range of choices of the institutional form in which they may operate in the U.S. market. As of March 31, 1998, 271 foreign banks from 59 countries operated 469 agencies and branches, 108 U.S. banking subsidiaries, 21 Edge Corporations, and three New York State Investment Companies. Agencies and branches are the preferred form of operation, accounting for over 58 percent of the assets of the banking offices operated by the foreign banks. In addition to operating through vehicles with banking powers, foreign banks also operate a total of 144 representative offices in the United States. Under U.S. law, foreign banks also are permitted to participate in a variety of nonbanking financial activities. For example, foreign banks can participate in leasing and finance companies, investment advisers, and limited purpose trust companies. Foreign banks that had securities broker-dealer subsidiaries prior to passage of the International Banking Act of 1978 had these operations grandfathered.

Foreign bank activity is concentrated in the major U.S. financial centers. New York accounts for 71 percent of the U.S. assets of foreign banks, Chicago for 8 percent, and San Francisco and Los Angeles (combined) for 5 percent. The remaining foreign bank assets at U.S. offices are concentrated primarily in Miami, Houston, and Atlanta.

There also is considerable diversity in the business orientation of the foreign banks with a U.S. banking presence. Some banks are involved primarily in U.S. money markets, either as net investors, net borrowers, or in managing a portion of their parent banks' liquidity. In recent years, foreign banks have become more active in lending to U.S. business, often purchasing loans originated by U.S. banks. This has improved liquidity in the banking market.

Banks headquartered in industrial countries account for the predominant share of foreign bank activity in the United States. As of March 31, 1998, the reported assets of banks headquartered in the G-10 countries and Switzerland accounted for nearly nine-tenths of all foreign bank assets in the

United States.

Relatively large assets also are reported at U.S. offices of banks based in large middle-income countries such as Korea, Ireland, Spain, and Taiwan. In addition, banks from the four largest Latin American countries (Argentina, Brazil, Mexico, and Venezuela) had U.S. office assets in excess of US$1 billion per country.

Agencies and branches, with assets of over US$919 billion as of March 31, 1998, are the most common form of operation by foreign banks. These banking offices are involved primarily in wholesale banking. They have only a small presence in retail banking. Approximately 40 percent of agency and branch office assets are accounted for by claims on other banks or other offices of their parent bank. Approximately 30 percent of their assets are loans to businesses or real estate loans and approximately 12 percent of their assets are investments in securities. By contrast, less than 1 percent of their assets are consumer loans or mortgages that might be considered retail business.

On the liability side, interbank deposits and borrowings from banks account for one-half of the total liabilities of agencies and branches. About 40 percent of the interbank business of agencies and branches of foreign banks are transactions with U.S. agencies and branches of other foreign banks. Deposits, of all kinds, from nonbank U.S. residents represent only about 20 percent of agency and branch funding. (Under federal law and regulation, a federal agency cannot accept deposits; some state laws permit state agencies to accept deposits from non-U.S. residents or citizens.)

U.S. offices of foreign banks also have tended to rely on borrowings from foreign sources. As of March 31, 1998, U.S. offices of foreign banks were net borrowers of over US$320 billion from foreign sources, including net borrowings of nearly US$146 billion from their related offices outside the United States.

Scale of Foreign Bank Operations

From year-end 1973, the first year the Federal Reserve collected comprehensive data, through March 31, 1998, the reported assets of U.S. offices of foreign banks increased from US$32 billion to US$2.1 trillion.

Foreign banks currently account for about one-fifth of the assets of all banking offices in the United States, and they have booked about 28 percent of all loans to U.S. businesses at these banking offices.

Since 1993, the Federal Reserve has collected quarterly data on offshore licensed offices of non-U.S. banks that were managed or controlled by a U.S.-domiciled office of the same parent banking organization. The reporting system for offshore branches of foreign banks indicated that as of March

31, 1998, these offshore branches of foreign banks had assets (excluding claims on their related U.S. offices) of US$320 billion and loans to U.S. businesses of US$59 billion. The new data on offshore lending by foreign banks increased the estimated share of foreign banks in all bank lending to U.S. businesses almost five percentage points.

Foreign Bank Lending to U.S. Business by Agencies, Branches, and Offshore Branches
March 31, 1998

Country of Parent Bank	U.S. Business Lending (percent)
Japan	38.7
France	12.9
Canada	11.9
Netherlands	9.0
Switzerland	5.2
Germany	3.7
Italy	2.6
United Kingdom	2.2
Korea (South)	1.8
Australia	1.6
Israel	1.5
All Others	8.9

Source: Federal Reserve

Foreign Bank Activity in the United States
March 31, 1998

Country	Total Assets (US$ millions)	Operating Offices	Bank Families
Japan	418,331	265	43
Germany	307,707	77	12
Switzerland	295,079	64	7
Canada	208,628	148	7
Netherlands	202,656	123	3
France	201,837	139	12
United Kingdom	149,909	93	11
Gibraltar	53,974	16	1
Italy	31,810	33	12
Australia	25,382	20	4
Ireland	24,593	40	2
Spain	19,702	25	7
Belgium	15,723	15	4
Sweden	14,689	10	3
Israel	12,397	22	4
Austria	11,996	31	3
China (Taiwan)	11,266	24	12
Korea (South)	11,177	38	13
Denmark	8,004	8	2
Hong Kong	5,253	24	8
Mexico	4,779	16	5
Finland	3,991	6	2
Brazil	3,682	25	12
Singapore	2,872	14	5
Venezuela	2,406	13	7

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Country	Total Assets (US$ millions)	Operating Offices	Bank Families
Argentina	2,220	4	3
Portugal	2,179	7	3
China (Mainland)	2,107	5	2
India	1,657	10	3
Indonesia	1,558	14	9
Greece	1,375	6	1
Malaysia	1,329	2	2
Chile	1,136	2	1
Norway	1,075	4	2
Bahrain	883	5	2
Thailand	841	8	4
Colombia	703	6	4
Philippines	643	12	5
Uruguay	583	1	1
Ecuador	548	4	3
Turkey	524	2	2
Panama	509	2	2
Jordan	487	1	1
Poland	392	2	1
Slovenia	286	2	1
Pakistan	220	7	3
Kuwait	217	2	2
Other	*1018*	*18*	*13*
TOTAL	2,070,333	1,415	271

Source: Federal Reserve

Non-U.S. Assets and Liabilities of
U.S. Branches and Agencies of Foreign Banks
(US$ billions)

Year-End	Claims on Non-U.S. Residents	Liabilities to Non-U.S. Residents
1987	278.8	310.8
1988	305.1	340.4
1989	328.0	317.7
1990	326.7	384.9
1991	350.4	402.3
1992	328.9	426.1
1993 (revised)	293.5	424.7
1994	294.4	454.4
1995	323.3	496.7
1996	340.8	498.9
1997	427.1	553.4

Source: Treasury International Capital Reports. Data exclude negotiable CDS.

U.S. Offices of Foreign-Controlled Banks
March 31, 1998

Type of Organization	Number	Total Assets (US$ billions)
Agencies	173	120
Branches	296	799
Subsidiaries	108	300
Investment Companies	3	0.01
Edge/Agreement Corporations	21	3
Nonbanks	651	497
Section 20	18	352
Representative Offices	144	n/a
Total	1,415	2,070
Total U.S. Commercial Bank Assets		5,111
Percent Foreign-Controlled		40.5

Source: Federal Reserve

An ***Agency*** is a direct U.S. office of a foreign bank that may make loans and maintain credit balances, but generally may not accept deposits from U.S. citizens or residents.

A ***Section 20 Subsidiary*** is a nonbank subsidiary of a bank holding company that, with prior FRB approval, may engage in securities underwriting and dealing to a limited extent consistent with Section 20 of the Glass-Steagall Act.

Edge and Agreement Corporations are federally and state-chartered corporations that are permitted to engage in a range of banking and investment activities outside the United States, but whose U.S. activities are limited to activities that are incidental to its international or foreign business.

Ten U.S. Cities with the Most Foreign Banking Offices
March 31, 1998

Cities	Agencies	Branches	Bank Sub.	Investment Companies	Edge/ Agreement	Nonbanks	Section 20	Rep. Offices	Total Offices	Total Assets (US$ billions)
New York	43	193	34	3	5	323	15	11	627	1,476
Los Angeles	39	29	11	0	1	19	0	15	114	47
Chicago	0	36	5	0	3	50	2	15	111	167
Miami	39	0	1	0	8	3	0	8	59	21
San Francisco	14	11	7	0	1	15	0	11	59	62
Wilmington	0	0	0	0	1	54	0	0	55	34
Houston	12	0	0	0	0	10	0	20	42	17
Atlanta	16	0	0	0	0	5	0	5	26	10
Boston	0	3	1	0	0	18	0	4	26	8
Baltimore	0	0	1	0	1	13	0	2	17	11
Ten Cities	163	272	60	3	20	510	17	91	1,136	1,853
Total Foreign U.S. Offices	173	296	108	3	21	651	19	144	1,415	2,070

Source: Federal Reserve

Selected Assets and Liabilities of New York Offices of Foreign Banks [1]
March 1998

Amount (US$ billions)				Share of the Market [2] (Percent)			
Total Assets	Total Loans	Business Loans	Total Deposits	Total Assets	Total Loans	Business Loans	Total Deposits
712.8	245.5	133.2	389.9	58.5	48.1	47.3	58.7

[1] Data include agencies, branches, subsidiary commercial banks and New York investment companies, but not Edge or Agreement Corporations. New York offices of Puerto Rican banks are not included. Assets and liabilities include those on the books of International Banking Facilities (IBFs).

[2] Includes "domestically owned" commercial banks, U.S. agencies and branches of foreign banks, and commercial banks and New York investment companies with more than 25 percent foreign bank ownership, but not Edge or Agreement Corporations. New York offices of Puerto Rican banks are not included.

Sources: FFIEC 002, FFIEC 03 1, FFIEC 032, FFIEC 033, FFIEC 034, FR 886a, and FR 105.

Selected Assets and Liabilities of California Offices of Foreign Banks [1]
March 1998

Amount (US$ billions)				Share of the Market [2] (Percent)			
Total Assets	Total Loans	Business Loans	Total Deposits	Total Assets	Total Loans	Business Loans	Total Deposits
288.9	169.2	106.5	162.4	23.7	33.1	37.8	24.5

[1] Data include agencies, branches, subsidiary commercial banks but not Edge or Agreement Corporations. California offices of Puerto Rican banks are not included. Assets and liabilities include those on the books of International Banking Facilities (IBFs).

[2] Includes "domestically owned" commercial banks, U.S. agencies and branches of foreign banks, and commercial banks and New York investment companies with more than 25 percent foreign bank ownership, but not Edge or Agreement Corporations. California offices of Puerto Rican banks are not included.

Sources: FFIEC 002, FFIEC 03 1, FFIEC 032, FFIEC 033, FFIEC 034, FR 886a, and FR 105.

Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks
March 31, 1998
US$ billions

	Total Including IBFs
Total Assets	*920.4*
Cash & balances due from depository institutions	88.0
Total Securities	118.0
Federal Funds sold	64.7
Total loans, gross	362.7
Less: Unearned income	0.2
Loans, net:	362.4
Real estate loans	23.9
Depository institutions	33.8
Other financial institutions	53.7
Commercial and Industrial:	224.8
U.S. domicile	185.2
Non-U.S. domicile	39.6
Other	26.8
Trading Assets	98.6
Customers liabilities on acceptances	5.0
Other Assets	26.7
Net due from related depository institutions	157.0

	Total Including IBFs
Total Liabilities	*920.4*
Total deposits and credit balances	466.5
Individuals, partnerships, corporations:	225.7
U.S. domicile	197.0
Non-U.S. domicile	28.7
Commercial banks in U.S.:	80.2
U.S. branches & agencies of foreign banks.	43.1
Other banks	37.1
Banks in foreign countries	96.0
Foreign official institutions	51.2
Other	13.3
Federal Funds purchased	130.5
Other borrowed money	87.4
Branch of agency liability on acceptances	5.2
Trading Liabilities	60.3
All Other Liabilities	24.1
Net to due related depository institutions	146.4

Source: Federal Reserve

FOREIGN SECURITIES FIRMS

Brokers and Dealers

A broker-dealer (other than a U.S. bank) that uses the U.S. mail or any means or instrumentality of interstate commerce to effect transactions in nonexempted securities generally must register with the Securities and Exchange Commission (SEC) under the Securities Exchange Act. The SEC's policy is one of equal market access by applying the same requirements to all broker-dealers, whether U.S.- or foreign-owned, or U.S.- or foreign-resident. Registered broker-dealers are not required to report to the SEC the extent to which they are owned by foreigners.

Issuers

The Securities Act of 1933 (Securities Act) prescribes disclosure and antifraud standards for offerings of securities in the United States, and requires registration of securities with the SEC prior to their offer or sale unless an exemption from registration is available.

As of June 30, 1998, over 1,100 foreign issuers representing 55 countries were filing Exchange Act reports with the SEC. Over 500 new foreign companies have entered the U.S. markets since January 1994, including companies from Russia, Hungary, and Ghana.

As of June 30, 1998, over 800 foreign issuers were listed on U.S. stock exchanges.

Investment Advisers

Under the Investment Advisers Act of 1940 (IAA), foreign investment advisers that use the U.S. mail system or any means or instrument of interstate commerce in connection with their businesses are required to register with the SEC unless an exemption is available. No particular qualifications are required for registration, and the SEC generally seeks to apply the same requirements to foreign and domestic investment advisers.

As of June 30, 1998, approximately 420 (an increase of approximately 35 percent from 1994) foreign investment advisers, with foreign business addresses, were registered with the SEC, out of a total of about 7,500 SEC-registered investment advisers.[63] In addition, the SEC believes that there are

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[63] Recent amendments to the IAA have split supervision and regulation of investment advisers between the states and the SEC. Certain advisers, such as foreign investment advisers, larger investment advisers, and investment advisers that advise registered investment companies, only register with the SEC. Other investment advisers are now prohibited from registering with the SEC and only register with the states in which they maintain a principal place of business. As a result of these amendments, there has been a decline in the number of investment advisers registered with the SEC.

a small number of foreign investment advisers who use addresses in the United States when registering.

Based on their registration forms, it appears that a substantial majority of the 420 foreign advisers – approximately 269 – have 50 or fewer clients, and that 19 of these have more than 500 clients. These 420 advisers have reported an aggregate market value of approximately US$1,257.4 billion of client securities managed on a discretionary basis (compared to US$628.1 billion in 1994), and US$732.5 billion managed or supervised on a nondiscretionary basis (compared to US$427.8 billion in 1994). These advisers report giving advice to a broad range of clients, including individuals, banks and thrifts, investment companies, pension and profit sharing plans, and corporations. Approximately 29 percent (compared to 5 percent in 1994) of these advisers have reported that their principal business (or the principal business of their principal executive officers) involves something other than providing investment advice.

The business addresses of the 420 registered foreign investment advisers with foreign business addresses are in the following countries:

Business Address	Number of Investment Advisers
Argentina	2
Australia	9
Austria	3
Bahamas	5
Barbados	1
Belgium	2
Bermuda (UK)	12
Bolivia	1
Brazil	7
British Virgin Islands (UK)	2
Canada	45
Cayman Islands (UK)	2
Channel Islands (UK)	8
Chile	1
Republic of China	1

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Business Address	Number of Investment Advisers
Colombia	1
Costa Rica	3
England (UK)	108
France	11
Germany	11
Ghana	1
Gibraltar (UK)	2
Greece	1
Hong Kong	30
Hungary	1
India	3
Ireland	3
Isle of Mann (UK)	1
Israel	4
Italy	4
Japan	30
Korea (Seoul)	24
Luxembourg	2
Malaysia	1
Mauritius	1
Mexico	7
Morocco	1
Netherlands	7
Norway	1
Pakistan	1
Philippines	2
Portugal	1

Business Address	Number of Investment Advisers
Russia	1
Scotland (UK)	18
Singapore	9
South Africa	4
Spain	6
Switzerland	11
Taiwan	4
Thailand	1
Turkey	2
United Arab Emirates	1

Source: SEC

Investment Companies

Under Section 7(d) of the Investment Company Act of 1940 (ICA), no foreign-domiciled investment company may make a public offering of its securities in the United States unless it has applied for and received an order from the SEC permitting it to register under the ICA. To issue a Section 7(d) order, the SEC must affirmatively find that it is both legally and practically feasible effectively to enforce the provisions of the ICA against such company and that issuance of such order is otherwise consistent with the public interest and protection of investors. Only 19 foreign funds, most of which are from Canada, have ever received orders from the commission under Section 7(d). The SEC last issued such an order in 1973.

A foreign money manager that is registered under the ICA may organize an investment company in the United States on the same basis as domestic money managers. Foreign advisers also can establish funds in the United States that invest in the same types of securities as funds they manage in their home countries.

As of June 1998, the most recent date for which data are available, there were approximately 1,337 U.S. investment companies whose portfolios consisted primarily of foreign securities. Assets of these funds totaled approximately US$471 billion. Of these funds, approximately 1,226 were open-end (funds that have a floating number of outstanding shares and stand prepared to sell or redeem shares at all times). Approximately 111 were closed-end (funds that have a fixed number of outstanding shares that are traded either on an exchange or in the over-the-counter market). Assets of open-end funds with portfolios of primarily foreign securities totalled approximately US$437.7 billion; assets of these types of closed-end funds totalled approximately US$33.6 billion.

Foreign Futures Businesses

The Commodity Exchange Act (CEA) and the regulations thereunder govern all transactions involving futures and certain option contracts. Under the CEA, a foreign firm considered to be doing business in the United States is treated no less advantageously than a domestic firm. Any person who acts in the capacity of a futures commission merchant (FCM), introducing broker (IB), commodity trading advisor (CTA), commodity pool operator (CPO), or as an associated person (AP) of the foregoing must register in the appropriate capacity with the Commodity Futures Trading Commission (CFTC) or have appropriate exemptive relief.

In general, a financial intermediary will be subject to CFTC regulation if it is legally domiciled in the United States, is physically present in the United States, has consented to jurisdiction, or is conducting business in the United States by dealing with persons located in the United States. A financial intermediary that is deemed to be conducting business in the United States need not be physically present in the United States.

CFTC data, as of May 1998, indicate that the numbers of registrants who are foreign-based are as follows: 206 CTAs (8 percent of registrants); 73 CPOs (5 percent of registrants); 1,882 APs (4 percent of registrants); 6 IBs (less than one-half of 1 percent of registrants); and 0 FCMs. The countries of origin for these registrants are as follows:

	CTA	CPO	IB	AP
Albania				1
Argentina				43
Australia	4		1	20
Austria				4
Bahamas		4		4
Bahrain				3
Belgium	3			22
Bermuda	4	18	1	8
Botswana				2
Brazil	1			15

	CTA	CPO	IB	AP
British Virgin Islands	2			2
Canada	21	6	1	46
Cayman Islands	2	3		1
Chile				8
China	5	2		152
Czech Republic				1
Denmark				3
Falkland Islands				1
France	14	1		72
Germany	17	1		178
Guadeloupe	1			2
Guatemala				1
Haiti				1
Honduras				1
Indonesia				1
Ireland	8	7		16
Israel				3
Italy	2			3
Japan	51	2		205
Korea (South)				1
Kuwait	1			
Luxembourg				9
Malta	1			
Martinique				1
Mexico	1			2
Monaco	3	1		11
Netherlands	4	1		28

	CTA	CPO	IB	AP
Netherlands Antilles	1			2
New Hebrides				1
Nicaragua				1
Philippines				2
Portugal				1
Russia				1
Scotland				1
Senegal				3
Singapore	1	1		113
Spain	1			25
Surinam				1
Sweden	1			6
Switzerland	11	3		111
Taiwan	2			4
United Arab Emirates				2
United Kingdom	41	18	3	725
Uruguay				4
Venezuela				5
West Indies	3	5		1
Yemen				1
Zimbabwe				1
TOTAL	206	73	6	1,882

Source: CFTC

CFTC rules also provide special treatment for firms engaging in the offer or sale of foreign futures and commodity option products to persons in the United States. Specifically, CFTC rules provide a mechanism for exempting foreign firms, upon application by relevant parties, from compliance with some CFTC rules, such as registration, based upon the CFTC's determination of comparability between the foreign jurisdiction's regulatory structure and that of the CFTC. This approach of substituted compliance is an effort to avoid duplicative regulation without having regulatory gaps. The countries of origin of these exempted firms are as follows:

Foreign Firms Granted Relief from Registration as FCMs
Based upon Comparability of Foreign Regulation
as of May 1998

Australia	27
Canada	10
France	19
Japan	8
Singapore	9
Spain	21
United Kingdom	85
TOTAL	179

Source: CFTC

When firms apply for confirmation of comparability relief, the CFTC requires disclosure of affiliates in the United States that act in the capacity of a bank, a broker-dealer, or a dealer in the cash commodity. The CFTC's records indicate that the majority of the foreign firms granted relief are affiliated with such firms in the United States.