2 Extent of Foreign Bank Representation

And dar'st thou, then
To beard the lion in his den,
The Douglas in his hall?

Sir Walter Scott

A. SCOPE OF FOREIGN BANK ACTIVITIES IN U.S.
The expansion of foreign bank operations in the United States has been impressive. Over 150 foreign banks now operate representative offices, agencies, branches and subsidiaries in the United States, representing all major European countries, Canada, Japan and a growing number of less developed countries. At yearend 1974 foreign banks held U.S. assets in excess of $56 billion. The range of operations of foreign banks has broadened in recent years, and now includes lending in the domestic credit markets, retail banking, money market activities, stock market transactions, and securities underwriting.

A basic theme underlying this volume is that the recent growth of foreign bank activities in the United States is only part of a broad pattern and trend which embraces the internationalisation of global business, specifically including the flow of foreign investment into the United States. In the period 1960–72 foreign investment in the United States expanded from $40.8 billion to $148.6 billion. Foreign investment entering the United States takes three principal forms; portfolio investment, direct investment, and short-term investment in liquid assets. All three are intimately related to the increasing role of foreign bank operations in the U.S.

Foreign banks employ several organisational forms in their operations in the U.S., including the representative office, agency, branch, and the corporate subsidiary. In theory the representative office does not perform banking functions, but
may facilitate banking transactions through local correspondents. The primary functions of representative offices appear to be to provide information concerning the parent bank, to serve as liaison with respect to various activities of the parent bank, and to function as an intermediary in providing information to American companies interested in offshore financing.

The agency and branch forms are permitted in several states, given the approval of the State Superintendent of Banks and the Banking Board. Generally, a licensing requirement must be satisfied. While an agency may appear to resemble a branch, there are several significant differences. Agencies may not accept deposits, although they do maintain 'credit balances' which are claims of customers derived from financing foreign trade and other transactions. Branches are empowered to conduct a general banking business, including the right to accept deposits. In New York branches and agencies are licensed annually.

Foreign-owned bank subsidiaries and trust companies generally operate in a manner similar to that of domestic commercial banks. These subsidiaries may be eligible for Federal Reserve membership and must have deposit insurance coverage by the Federal Deposit Insurance Corporation. Several New York chartered trust companies confine their activities to corporate agency functions. The California chartered subsidiaries of foreign banks operate along general banking and retail lines.

New York Banking Law provides for the chartering of investment companies which engage in loan and investment activities. These companies generally emphasise financing high-risk trade or participate in venture capital schemes. The investment companies are not permitted to accept deposits but may maintain credit balances.

B. DEVELOPMENT AND GROWTH
The following discussion focuses on development and growth of foreign banks in New York. In subsequent sections we analyse more recent expansion of foreign banking across the United States.

The development of foreign banking in the United States can