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# Instructions for Preparation of FR Y-1f Application for a Foreign Organization to Become a Bank Holding Company

## Purpose

This application collects data that are used to evaluate the proposed transaction in terms of its effects on competition in the relevant market, on the convenience and needs of the public, and on the present and pro forma financial condition of the applicant and its proposed subsidiary(ies).

## Who Must File This Application

Any company organized under the laws of a foreign country that is seeking initial entry into the United States through the acquisition of a domestic bank must file this application.

## Nonbanking Activities

If Applicant proposes as part of this transaction to engage, directly or indirectly, in any nonbanking activity, Applicant must file a companion FR Y-4 application. See Section 225.25(b) of Regulation Y for a listing of permissible nonbanking activities approved by regulation and Section 225.23(a)(3) for application procedures to engage in unlisted nonbanking activities. See also Item 12 below.

## Preparation of Application

To assist Applicant, a pamphlet titled "Processing an Application Through the Federal Reserve System" is available from any Federal Reserve Bank (Reserve Bank). Applicant is encouraged to refer to this pamphlet as it provides information and assistance for preparing and filing an application, and outlines the processing procedures, public notification requirements which are also described below, and other general information.

Inquiries concerning the preparation and filing of this application should be directed to the Federal Reserve

Bank of the District in which Applicant's operations would be principally conducted.

The Federal Reserve reserves the right to require the filing of additional statements and information. If any information initially furnished in the application changes significantly during processing of the application, such changes should be communicated promptly to the Reserve Bank.

## Publication Requirement

Pursuant to Section 262.3(b)(1) of the Board's "Rules of Procedures," Applicant should publish a notice in a newspaper of general circulation in the community in which BANK's head office is located. The notice should contain the name and address of Applicant and BANK, the subject matter of the application, and an invitation to the public to give written comments upon the application to the appropriate Federal Reserve Bank no later than thirty calendar days after the date of publication of the notice. The application should be filed within seven days of publication.

Following is a sample notice.

Notice of Application  
(Bank Holding Company Formation)  
(Name and Address of Applicant)

intends to apply to the Federal Reserve Board for permission to acquire \_\_\_\_ percent of (Name and address of BANK). The Federal Reserve considers a number of factors in deciding whether to approve the application, including the record of performance of banks we own in helping to meet local credit needs.

You are invited to submit comments on this application, in writing, to the Federal Reserve Bank of (name and address of appropriate Reserve Bank). The comment

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# Instructions for Preparation

period will not end before (date—must be no less than 30 days from date of notice), and may be somewhat longer. The Federal Reserve Board’s Policy Statement regarding notice of application may be found at 12 C.F.R. 262.25. To obtain a copy of the Federal Reserve Board’s procedures, or if you need more information about how to submit your comments on the application, contact the Community Affairs Officer at the Federal Reserve Bank of (name of the Reserve Bank, Community Affairs Officer, and telephone number). The Federal Reserve will consider your comments and any request for a hearing on the application if they are received by the Federal Reserve Bank on or before the last day of the comment period.

## Confidentiality

The Board of Governors of the Federal Reserve System is of the view that information from the FR 2068 is exempt from public disclosure under the Freedom of Information Act (5 U.S.C. §552(b)(8)).

Under the provisions of the Freedom of Information Act, the remainder of the application is a public document and available to the public upon request.

If Applicant is of the opinion that disclosure of commercial or financial information would likely result in substantial harm to the competitive position of the proposed holding company or its subsidiaries, or that disclosure of information of a personal nature would result in a clearly unwarranted invasion of personal privacy, confidential treatment of such information may be requested. This request for confidential treatment must be submitted in writing concurrently with the submission of the application, and must discuss in detail the justification for confidential treatment. Such justification must be provided for each response for which confidential treatment is requested.

Applicant’s reasons for requesting confidentiality should demonstrate specifically the harm that would result from public release of the information. A statement simply indicating that the information would result in competitive harm or that it is personal in nature is not sufficient. (A claim that disclosure would violate the law or policy of a foreign country is not, in and of itself, sufficient to exempt information from disclosure. It must be demonstrated that disclosure would meet either the “substantial competitive harm” or “unwarranted invasion of personal privacy” test).

Information for which confidential treatment is requested should be: (1) specifically identified in the public portion of the application (by reference to the confidential section); (2) separately bound; and (3) labeled “Confidential.”

Applicant should follow this same procedure on confidentiality with regard to filing any supplemental information to the application.

## FR 2068

Item 3.a. of this application requires Applicant to complete Federal Reserve form FR 2068 (Foreign Banking Organization Confidential Report of Operations). This form can be obtained from any Federal Reserve Bank. The FR 2068 will be accorded strict confidential treatment (see Confidentiality section below). Applicant should not include the FR 2068 with the remainder of the application when filed at the Federal Reserve Bank, but rather forward one copy with a transmittal letter to:

Director  
Division of Banking Supervision and Regulation  
Board of Governors of the Federal Reserve System  
Washington, DC 20551

## Preliminary Charter Approval

If a proposed new operating bank is involved, Applicant should have received at least preliminary approval of the charter before filing this application.

## Supporting Information

The formal questions in the application are not intended to limit Applicant’s presentation. In this regard, Applicant bears the full burden for presenting and documenting a case to meet the statutory criteria for approval. Supporting information for any or all factors, setting forth the basis for Applicant’s judgment, may accompany the application.

## Compliance

The Board expects Applicant to comply with all representations and commitments made in this application. Applicant should immediately contact the appropriate Federal Reserve Bank if there is any change in the structure of the proposal prior to consummation.

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# Requested Information

## I. Proposed Transaction

### Item 1

If the proposed transaction will result in an organization other than a shell one-bank holding company, submit a pro forma organization chart showing Applicant's percentage of ownership of all banks and companies, both domestic and foreign, in which it directly or indirectly will own or control more than 5 percent of the outstanding voting shares.

### Item 2

Provide the following with respect to BANK:

- a. Total number of shares of each class of stock outstanding;
- b. Number of shares of each class now owned or under option by Applicant, by subsidiaries of Applicant, by principals<sup>1</sup> of Applicant, by trustees for the benefit of Applicant, its subsidiaries, shareholders, and employees as a class, or by an escrow arrangement instituted by Applicant;
- c. Number of shares of each class to be acquired by cash purchase, the amount proposed to be paid, per share and in total, and the source of funds to be applied to the purchase;
- d. Number of shares of each class to be acquired by exchange of stock, the exchange ratio, and the number and description of each class of Applicant's shares to be exchanged;
- e. Copy of any existing or proposed contract or agreement that in any manner limits the ability of individuals associated with BANK to compete with BANK, Applicant or its subsidiaries. Discuss the purpose of and the reasonableness of such an arrangement with respect to duration, geographic area and the institutions involved; and

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1. The term principal as used herein means any individual or corporation that (1) owns, directly or indirectly, 10 percent or more of the outstanding shares of any class; (2) is a director, trustee, partner, or executive officer; or (3) with or without ownership interest, participates, or has the authority to participate in major policy-making functions, whether or not the individual has an official title or is serving without compensation. If Applicant believes that any such individual should not be regarded as a principal, Applicant should so indicate and give reasons.

- f. A brief description of any unusual contractual terms, emphasizing those terms not disclosed elsewhere in the application. Also, provide the expiration dates of any contractual arrangement between the parties involved in this application.

## II. Financial and Managerial Information

The financial statements should be stated in the local currency of the country in which the head office of Applicant is located. The financial statements may also be stated in U.S. dollars, but the conversion to U.S. dollars is not required. The statements should be prepared in accordance with local accounting practices; however, an explanation of the accounting terminology and the major features of the accounting standards used in the preparation of the financial statements must be provided. This explanation should include a discussion of the following practices and any other material practices as determined by the Applicant:

- The accounting principles used for consolidation of investments on a line-by-line basis in the preparation of the financial statements. Comments should address the method and/or criteria by which the majority-owned companies are consolidated on a line-by-line basis, and the basis for carrying value and manner of income recognition of any majority-owned subsidiaries that are not consolidated on a line-by-line basis. The method of valuation of the investments in which Applicant owns between 20 percent and 50 percent, i.e., historical cost, net asset value (book value), market value, or appraised value, and the manner of the recognition of income should be included.

Separate financial statements should be provided for any majority-owned subsidiary and any 20 to 50 percent-owned company controlled by Applicant that is not consolidated on a line-by-line basis, if the assets of that subsidiary or company equal more than 5 percent of Applicant's consolidated assets.

- The accounting practices used in the valuation, e.g., historical cost, net asset value (book value), market value, or appraised value, of short-term investments, long-term investments, and fixed assets. The comments should disclose the manner of the recognition of increases and/or decreases in the value of the assets.

The recording of guarantees, letters of credit contingencies, leases, pension obligations, and other similar

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## Requested Information

accounts on the books of Applicant. The explanation should indicate whether such accounts are carried as assets and/or liabilities on Applicant's financial statements, are disclosed as footnotes to the financial statements, or are undisclosed.

- The method utilized in the translating of foreign currency transactions and foreign currency financial statements with respect to current assets, long-term investments, fixed assets, long-term debt, and forward exchange contracts. The discussion should also include the method of recognition of any gains or losses resulting from such translation and the effect of the translation upon the recognition of revenue and expense and the determination of net income.
- The method by which interest revenue and interest expenses are recorded on the books of Applicant. The accounting principles and the manner of income and expense recognition underlying the use of overdraft accounting.

### Item 3

Provide the following for Applicant:

- a. Completed FR 2068 as discussed in the Instructions for Preparation;
- b. Parent-only and consolidated balance sheets showing separately each principal group of assets, liabilities and capital accounts as of the end of the most recent fiscal quarter; debit and credit adjustments (explained by footnotes) reflecting the proposed transaction; and the resulting pro forma balance sheet.

Provide the amount, maturity, and a brief description of debt instruments. Indicate which instruments qualify under the risk-based capital guidelines as tier 2 capital for the consolidated organization. This information can be provided in a footnote to the consolidated balance sheet.

**NOTE:** Goodwill and all other intangible assets should be set out separately on the balance sheet according to type of intangible. Also indicate the amortization period for any goodwill on the balance sheet. If the application involves the transfer of ownership of BANK from one control group to another at the time of the formation, then Applicant's carrying value for the shares of BANK would be the purchase price. If the application involves the transfer of ownership of BANK from individual to corporate form (a

reorganization of existing interests), then Applicant's carrying value for the shares of BANK should be their historical cost to the exchanging shareholders plus the proportionate interest in any undistributed earnings of BANK from the date those shares were acquired by the exchanging shareholders. (BANK's valuation reserves are not included in these computations.) If historical cost plus undistributed earnings cannot reasonably be determined, then present book value should be assigned to the shares of BANK as carrying value. The computation of carrying value should be detailed by footnotes to the balance sheet.

- c. Provide for Applicant, on a consolidated basis, a breakdown of the organization's existing and pro forma risk-based assets as of the end of the most recent fiscal quarter, showing each principal group of on- and off-balance sheet assets and the relevant risk weights. Also, identify the components of tier 1 and tier 2 capital under the final risk-based capital guidelines and provide calculations of Applicant's tier 1 and total capital to risk-based assets.
- d. Income statements, parent-only and consolidated, showing separately each principal source of revenue and expense, through the end of the most recent fiscal quarter and for the past three (3) fiscal years. For statements reflecting the most recent quarterly information, also provide statements for the comparable period of the preceding year.
- e. Current information that will enable the Board to make a judgment as to the quality of Applicant's assets. The information should be presented for Applicant's consolidated organization and, if available, should include, but need not be limited to, the following (Applicant should provide definitions of the terms.):
  - i. Asset classifications or assessments made by foreign banking authorities;
  - ii. Delinquencies;
  - iii. Non-accrual loans;
  - iv. Assets acquired in satisfaction of debts previously contracted;
  - v. Loans with reduced interest charges; and
  - vi. Foregone interest income on non-accrual and reduced interest loans.

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# Requested Information

## Item 4

If Applicant's home country maintains capital export controls, discuss in detail the limitations such controls would place on Applicant's ability to serve as a source of strength for its United States banking interests.

## Item 5

For all indebtedness to be incurred or assumed by Applicant in this proposal, provide the following:

- a. Amount;
- b. Purpose of debt;
- c. Name and location of lender;
- d. Copy of loan agreement or loan commitment letter from the lending institution which provides interest rate, maturity, collateral and lender's proposed amortization schedule.

## Item 6

After consummation of the proposed transaction, for each principal of applicant who will retain personal indebtedness that was incurred in the acquisition of shares of Applicant or BANK, provide the following:

- a. Name of borrower and title, position, or other designation that makes the borrower a principal;
- b. Amount of personal indebtedness to be retained; and
- c. For any principal that will retain personal indebtedness or act as guarantor for debt in excess of \$100,000, also provide the following:
  - i. Statement of net worth as of a date within three months of Applicant's final filing of the application. The statement of net worth should be in sufficient detail to indicate each principal group of assets and liabilities of the reporting principal, and the basis for the valuation of assets. In addition to debts and liabilities, the reporting principal should state on a separate schedule, any endorsed, guaranteed, or otherwise indirect or contingent liability for the obligation of others;
  - ii. Statement of most current year's income. In addition to indicating each principal source of annual income, the reporting principal should list annual fixed obligations arising from amortization and other debt servicing. (If the most current year's

statement is not representative of the future, the reporting principal should submit a pro forma income statement and discuss the significant changes); and

- iii. A description of the terms of the borrowings, and the name(s) and location of the lender.

## Item 7

Provide for BANK a complete copy including all schedules of the most recent report of condition and report of income and dividends as filed with a federal supervisory authority. Indicate the amount of any dividend payment by BANK since the date of the most recent report of condition and report of income and dividends and the amount of any BANK dividends planned prior to consummation.

## Item 8

Provide for Applicant and BANK a list of principals (include changes or additions to this list to reflect consummation of the transaction), providing information with respect to each as follows:

- a. Name and address (City and State/Country). If the principal's country of citizenship is different from his country of residence, then state the country of citizenship;
- b. Titles or positions with Applicant and BANK;
- c. Number and percentage of each class of shares of Applicant and BANK owned, controlled, or held with power to vote by this individual;<sup>2</sup>
- d. Principal occupation if other than with Applicant or BANK; and
- e. Percentage of direct or indirect ownership, if such ownership represents 10 percent or more of any class of shares, or positions held in any other depository organization.<sup>3</sup> Give the name and location of the other

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2. Include shares owned, controlled or held with power to vote by principal's spouse and dependents. Give record of ownership and, to the extent information is available, beneficial ownership of shares held by trustees, nominees, or in street names.

3. "Depository organization" means a commercial bank (including a private bank), a savings bank, a trust company, a savings and loan association, a homestead association, a cooperative bank, an industrial bank, a credit union, or a depository holding company.

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## Requested Information

depository organization. (Information that has been collected or updated within the past 12 months may be submitted, unless Applicant has reason to believe that such information is incorrect.)

### Item 9

Provide for Applicant and BANK copies of their most recent quarterly and annual reports prepared for shareholders.

### Item 10

If BANK is a proposed new operating bank, provide the following:

- a. Status of request for federal deposit insurance if BANK is to operate as a state nonmember bank;
- b. Estimates of major categories of assets, deposits, and capital accounts that are projected for BANK for the end of each of the first three years of operations. Explain methods and assumptions used in pro forma statements; and
- c. Estimates of major categories of income and expense, and net earnings or losses for each of the first three years of BANK's operations. Explain methods and assessments used in pro forma statements.

### Item 11

If Applicant, upon consummation of the subject proposal, intends to be a qualifying foreign banking organization as defined in Section 211.23(b) of Regulation K, provide the necessary information to support such a determination.

### Item 12

If Applicant itself, or any company (banking and non-banking) in which it will have direct or indirect ownership or control of more than 5 percent of the voting shares, will engage directly or indirectly at the time of consummation of this proposal in any nonbanking activities in the United States, provide the following:

- a. Name, location, and a detailed description of all the activities for each company (or Applicant itself);
- b. The state(s) or geographical areas in which each non-banking activity will be performed; and

- c. The specific section and paragraph of the Act or of Regulation K or Regulation Y that Applicant believes provides authority for acquisition or retention of each United States nonbanking activity and a description that demonstrates that each activity will be conducted consistent with the Board's Regulations and related interpretations. If Applicant has relied on the non-banking exemptions afforded by Section 2(h) and 4(c)(9) of the Act (as implemented by Section 211.23 of Regulation K) for certain activities, provide the necessary information to support such a determination.

To the extent the information requested in item 12 has been provided to the Federal Reserve in annual report forms (Form FR Y-7), Applicant may include such information by reference to those filings.

## III. Competition and Convenience and Needs

If the formation involves only one bank and no principal of Applicant or BANK is a principal of any other depository organization, then do not respond to Items 13 and 14; go directly to Item 15. If the formation involves two or more BANKS or if a principal of Applicant or BANK is also a principal of another depository organization, then Applicant should contact the appropriate Reserve Bank to determine whether a response to Items 13 and 14 is necessary. If a response is required, Applicant should obtain a preliminary definition of the relevant banking market(s). If Applicant disagrees materially with the Reserve Bank's preliminary definition of the banking market, it may in addition to supplying the information requested on the basis of the Federal Reserve Bank's definition of the banking market, include its own definition of the banking market, with supporting data, and answer the questions based on its definition. If later analysis leads the Federal Reserve System staff to significantly alter the preliminary definition provided, Applicant will be so informed.

### Item 13

Discuss the effects of the proposed formation on existing and potential competition considering existing horizontal and market extension merger guidelines. Applicant may be required to provide additional information if the Federal Reserve determines that the proposed acquisition exceeds these guidelines. Also, if divestiture of all or any

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## Requested Information

portion of any bank or nonbanking company constitutes part of this proposal, discuss in detail the specifics and timing of the divestiture.

### **Item 14**

For a formation in which any principal of Applicant or BANK is also a principal of any other depository organization (related organization), give the name and location of each office of any related organization that is located within the relevant banking market of BANK and give the approximate road miles (1 mile equals 1.6 kilometers) by the most accessible and traveled route between those offices and each of BANK's offices.

### **Item 15**

Indicate any banking needs of the community served by BANK that will be better met after the proposed formation. Also, discuss any new or expanded services that will be provided from the proposal, including a reference

to a prospective timeframe in which such services will be provided. Indicate which of the new services are not currently available in the communities to be served.

Comments should include, but need not be limited to, discussion of any expected changes in:

- a. Service charges on transaction deposits;
- b. Interest rates paid on time and savings deposits;
- c. Interest rates on business, consumer, personal, and other loans;
- d. Maximum maturities and other loan terms;
- e. Composition of the loan and investment portfolio;
- f. Banking house and improvements in physical facilities;
- g. Policies and activities of Applicant designed to meet existing or anticipated credit needs of its entire community, including low and moderate-income neighborhoods, consistent with safe and sound operations.