
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 225.28 of Regulation Y for a listing of permissible nonbanking activities approved by regulation and Section 225.24(a)(3) for application procedures to engage in unlisted nonbanking activities. See also Item 9 below.

Preparation of Application

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 required application is to be filed by submitting the information requested in this form to the appropriate Reserve Bank. Alternative formats, if used, must provide all requested information. The application must be substantially complete and responsive to each item of information requested (including an indication that the answer

is "not applicable" or "none" where such is the case) in order to be considered properly filed.

The appropriate Reserve Bank, within the established time limitations, will review the submitted application to determine if it is complete. If so, an acknowledgement letter will be sent indicating the date of completion. If the submitted application is not complete, a request for additional information will be sent to the contact person named in the application. Under certain circumstances, name check and financial information may be required. Contact the appropriate Reserve Bank for further information.

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 newspaper notice must be published no more than 15 calendar days before and no later than 7 calendar days after the date that the application is filed with the appropriate Reserve Bank. On written request by the Applicant, the Reserve Bank may publish notice of proposals in the Federal Register no more than 15 calendar days before the application is filed.

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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 how the proposal would 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 period will not end before (date—must be no less than 30 days from date of publication of the 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 of (name of Reserve Bank) on or before the last day of the comment period.

Confidentiality

Under the provisions of the Freedom of Information Act, 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 its competitive position or that of 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 in the public portion of the application 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" tests).

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.

The Board will determine whether information submitted as confidential will be so regarded, and will advise Applicant of any decision to make available to the public information labeled "Confidential." However, it shall be understood that, without prior notice to Applicant, the Board may disclose or comment on any of the contents of the application in the Order or Statement issued by the Board in connection with its decision on the application. The Board's staff normally will apprise Applicant in the course of the applications process that such information may need to be disclosed in connection with the Board's action on the application.

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

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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 Federal Reserve if there is any change in the structure of the proposal prior to consummation.

I. Proposed Transaction

Item 1

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 principals¹ 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

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.
- 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 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.

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- 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.

Item 2

Provide the following for Applicant:

- a. Provide an organization chart for Applicant and its ultimate parent, if any, showing all subsidiaries of Applicant and its ultimate parent.²
- 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 and the two (2) most recent fiscal year-ends; debit and credit adjustments (explained by footnotes) reflecting the proposed transaction; and the resulting pro forma 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.

- c. If the Applicant and any parent foreign bank are from countries subscribing to the Basle Accord, provide, on a consolidated basis, a breakdown of each organization's risk-weighted 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 Basle risk-based capital guidelines and provide calculations of the ratios of tier 1 and total capital to risk-weighted assets for the Applicant and any parent foreign bank. Provide the

2. The "ultimate parent" of a foreign bank is the parent of the foreign bank that is not a subsidiary of any other company. A "subsidiary" is any organization 25 percent or more of whose voting shares is directly or indirectly owned, controlled, or held with the power to vote by a company, including a foreign bank or foreign banking organization, or any organization that is otherwise controlled or capable of being controlled by a foreign bank or foreign banking organization.

amount, maturity, and a brief description of debt instruments and indicate which instruments qualify under the Basle risk-based capital guidelines as tier 2 capital for each organization. If the home country capital standards of the Applicant or any parent foreign bank differ from that established under the Basle Accord, provide information concerning the capital standard applied in the home country of the Applicant and any parent foreign bank, as well as information sufficient to evaluate each organization's capital position adjusted as appropriate for accounting and structural differences. Further, provide, to the extent possible, information comparable to the Basle format.

- 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 two (2) fiscal years.
- e. Material changes between the date of the balance sheets and the date of the application should be disclosed. If there are no material changes, a statement to that effect should be made.
- f. 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.
- g. Total reserves available to cover credit-related losses for the end of the most recent quarter end and the two most recent fiscal year ends. The total reserve amounts should be broken down into "specific" "general," and/or other relevant categories.

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Item 3

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 4

Provide the amount of any dividend payment by BANK since the date of the most recent report of condition and report of income filed with a federal supervisory authority and the amount of any BANK dividends planned prior to consummation.

Item 5

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;³
- 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.⁴ Give the name and location of the other 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.)

3. 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.

4. "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.

Item 6

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

Item 7

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 8

If Applicant, upon consummation of the subject proposal, will 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 9

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

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U.S. 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 nonbanking 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 9 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 subject transaction involves only one BANK and no principal of Applicant or BANK is a principal of any other depository organization, then do not respond to Item 10; go directly to Item 11. 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 Item 10 is necessary. If a response is required, Applicant should obtain a preliminary definition of the relevant banking market(s) from the Reserve Bank. If Applicant disagrees materially with the Reserve Bank's preliminary definition of the banking market(s), it may in addition to supplying the information requested on the basis of the Federal Reserve Bank's definition of the banking market(s), include its own definition of the banking market(s), with supporting data, and answer the questions based on its definition. If later analysis leads Federal Reserve staff to alter the preliminary definition provided, Applicant will be so informed.

Item 10

Discuss the effects of the proposed transaction on competition considering the Board's horizontal merger guidelines. Applicant may be required to provide additional information if Federal Reserve staff determines that the proposal exceeds existing competitive guidelines. Also, if divestiture of all or any portion of any bank or nonbanking company constitutes part of this proposal, discuss in detail the specifics and timing of the divestiture.

Item 11

Describe how the proposal will meet the convenience and needs of BANK's community(ies). List any significant changes in services or products that will result from consummation of the transaction. If any services or products will be discontinued, describe and explain the reasons.

Discuss the programs, products, and activities of BANK that will meet the existing or anticipated needs of its community(ies) under the applicable criteria of the Community Reinvestment Act (CRA) regulation, including the needs of low- and moderate-income geographies and individuals. If an insured U.S. branch of Applicant or if BANK has received a CRA composite rating of "needs to improve" or "substantial noncompliance" institution-wide or, where applicable, in a state or multi-state MSA, or has received an evaluation of less than satisfactory performance in an MSA or in the non-MSA portion of a state in which the applicant is expanding as a result of the transaction, describe the specific actions, if any, that have been taken to address the deficiencies in the institution's CRA performance record since the rating.