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ANNUAL GLOBAL SURVEY OF REGULATORY AND MARKET DEVELOPMENTS IN BANKING, SECURITIES, AND OTHER FINANCIAL SERVICES

This special edition of International Banking Focus is the Institute's fourth annual global survey of regulatory and market developments in banking, securities, and other financial services. This survey is a continuation of the Institute's efforts to contribute to the understanding of the trends toward globalization of financial markets and convergence of regulatory systems around the world, as well as to the ongoing dialogue in the United States concerning proposals to modernize U.S. laws governing financial institutions. This year's survey for the one-year period ending June 30, 1991 has been expanded to include Brazil, Colombia, Denmark, Finland, Luxembourg, Mexico, Norway, Singapore, Spain, Sweden and Thailand. Now covering 23 countries and the European Community, the Institute's annual survey has been released to coincide with the IMF/World Bank meetings to provide a global perspective on important developments that have taken place in financial centers around the world.

This edition of the annual global survey also contains on pages 3-7 a chart showing securities, insurance and real estate activities and affiliations with industrial companies permitted to banking organizations in each country covered by the survey. This chart updates the chart which appeared in the 1988 edition of the global survey, and has been expanded to include information for additional countries. The chart also shows the scope of such affiliations under current U.S. law as well as under the different versions of financial modernization legislation proposed by the U.S. Department of the Treasury and approved by the House and Senate Banking Committees.

The Institute has prepared this survey in cooperation with the following banking associations: Australian Bankers' Association; the Belgian Bankers' Association; the British Bankers' Association; the Canadian Bankers' Association; the Danish Bankers' Association; Federacao Brasileira das Associacoes de Bancos; Asociacion Bancaria de Colombia; Asociacion Espanola de Banca Privada; the Banking Federation of the European Community; Association Francaise des Banques; the Finnish Bankers' Association; the Association of German Banks; the Hong Kong Association of Banks; Associazione Bancaria Italiana; the Federation of Bankers Associations of Japan; the Luxembourg Bankers' Association; the Mexican Bankers' Association; the Netherlands Bankers' Association; the Norwegian Bankers' Association; the Association of Banks in Singapore; the Swedish Bankers' Association; the Swiss Bankers' Association; and the Thai Bankers' Association.

The Institute of International Bankers is an association of banking organizations operating in the U.S. with headquarters in over 55 countries.

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OVERVIEW

During the one-year period ending June 30, 1991, significant initiatives to restructure systems of financial regulation and to increase efficiency of markets were undertaken around the world, both in response to the anticipated integration of the European market in 1992 and to increasing global competition. In Europe, individual countries continued to conform laws governing banks and other financial institutions to the general guidelines established by European Community ("EC") directives concerning such subjects as capital adequacy, solvency ratios, insider trading and money laundering. Several countries over the last year expanded the scope of permissible activities and investments for banking organizations. In anticipation of increased cross-border competition between securities markets, many countries have taken steps to increase participation in and efficiency of their stock exchanges including the introduction of new products. In addition to other liberalizing measures, Japan continued consideration of a major restructuring of its bank regulatory system to modify the separation between banking and securities businesses. The U.S. Congress is also considering legislation that would restructure the U.S. financial system to allow banks to engage through holding company structures in full service securities activities, to establish interstate branches and to allow commercial firms to own banks.

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PERMISSIBLE ACTIVITIES FOR BANKING ORGANIZATIONS IN MAJOR FINANCIAL CENTERS

	Securities[1]	Insurance[2]	Real Estate[3]	Bank Investments in Industrial Firms[4]	Industrial Firm Investments in Banks
Australia	Unlimited, but in practice through a subsidiary	Unlimited, but in practice through a subsidiary	Limited by prudential guidelines	Limited by prudential guidelines	Acquisition of more than 10% of a bank's voting stock requires regulatory approval
Belgium	Unlimited, certain activities through subsidiaries	Unlimited through subsidiaries	Generally limited to holding company premises	Limited direct and indirect investments are permitted	Unlimited, but subject to prior approval of authorities
Brazil	Unlimited through subsidiaries	Unlimited through subsidiaries	Generally limited to holding bank premises	Limited to suppliers to the bank	Permitted
Canada	Unlimited through subsidiaries	Not currently permitted; unlimited activities through subsidiaries proposed	Generally limited to holding bank premises; broader activities through subsidiaries proposed	Permitted to hold up to 10% interests	Not generally permitted above a certain percentage
Colombia	Unlimited through subsidiaries	Unlimited through subsidiaries	Generally limited to holding company premises	Unlimited through subsidiaries	Permitted, but investments over 10% subject to prior approval of banking authorities
Denmark	Unlimited, certain activities through subsidiaries	Unlimited through subsidiaries	Limited to 20% of capital	Permitted with restrictions; permanent controlling holdings in industrial companies are prohibited	Not prohibited, but such investments are generally not made

1 Underwriting, dealing and brokering all kinds of securities.
2 Underwriting and selling insurance as principal and as agent.
3 Real estate investment, development and management.
4 Including investments through holding company structures.

	Securities	Insurance	Real Estate	Bank Investments in Industrial Firms	Industrial Firm Investments in Banks
European Community[5]	Unlimited if authorized under home country law	Not applicable; permissibility is subject to home country and host country regulation	Not applicable; permissibility is subject to home country and host country regulation	Each 10% or more shareholding may not exceed 15% of the bank's own funds and such shareholdings on an aggregate basis may not exceed 60% of own funds	No general restriction; does not allow investments of 10% or more if home country supervisor is not satisfied with the suitability of the shareholder
Finland	Unlimited	Only selling of insurance policies as an agent	Permitted to hold real estate and shares in real estate companies up to 13% of total assets	Permitted to hold directly up to 10% of shares of non-financial companies, and up to 20% on an aggregate basis through subsidiaries	Not restricted by law
France	Unlimited	Unlimited, usually through subsidiaries	Unlimited	Permitted with regulatory approval of interests in excess of 10%	Not prohibited, but such investments are generally not made
Germany	Unlimited	Unlimited through subsidiaries	Unlimited through subsidiaries	Permitted, subject to limits based on bank's capital	Not prohibited, but such investments are generally not made
Hong Kong	Permitted (except for limitation on shareholding in certain listed companies and subject to applicable restrictions in Banking Ordinance)	Permitted (subject to applicable restrictions in Banking Ordinance and approval from Insurance Authority for 15% or more shareholding)	Permitted (subject to applicable restrictions in Banking Ordinance)	Permitted (subject to applicable restrictions in Banking Ordinance)	Permitted (subject to applicable restrictions in Banking Ordinance)

[5] The Second Banking Directive contains a broad list of securities and commercial banking activities that EC "credit institutions" (i.e., entities engaged in deposit-taking and lending) may conduct directly or through branches throughout the EC so long as their home countries authorize the activities. Subsidiaries of credit institutions governed by the law of the same member state may also conduct activities on the list throughout the EC, subject to conditions which include 90% ownership and a guarantee of commitments by the parent credit institutions. Insurance and real estate activities are not on the list and are therefore determined by home country and host country regulations.

	Securities	Insurance	Real Estate	Bank Investments in Industrial Firms	Industrial Firm Investments in Banks
Italy	Unlimited, but not permitted to operate directly on the Stock Exchange	Limited to 10% of own funds for each insurance company and 20% aggregate investment in insurance companies	Generally limited to holding bank premises	Not permitted	Permitted up to 15% of shares of the bank, subject to approval of the Bank of Italy
Japan	Limited, but a U.S. or other non-Japanese bank can own up to 50% of a full-service securities affiliate	Not permitted	Generally limited to holding bank premises	Limited to holding 5% interests	Permitted, providing total investment does not exceed investing firm's capital or net assets
Luxembourg	Unlimited	Unlimited through subsidiaries	Unlimited through subsidiaries	Unlimited, subject to reporting and prior notice to authorities	Subject to general authorization procedure (case-by-case decision)
Mexico	Securities trading permitted	Not permitted	Not permitted	Not permitted	Not permitted
The Netherlands	Unlimited	Unlimited through subsidiaries	Unlimited	Subject to regulatory approval for voting shares in excess of 5%; each investment limited to 5% of own funds of the bank and sum of all investments restricted to 20% of own funds	Subject to regulatory approval for voting shares in excess of 5%
Norway	Generally allowed through subsidiaries	Not permitted	Unlimited through subsidiaries	Investments of up to 49% in single companies permitted; only 4% of total bank assets permitted to be invested in shares	Generally, maximum ownership of 10% for any single owner of a Norwegian financial institution; some exemptions, the most important relating to subsidiaries of foreign institutions

	Securities	Insurance	Real Estate	Bank Investments in Industrial Firms	Industrial Firm Investments in Banks
Singapore	Unlimited through subsidiaries with regulatory approval	Unlimited through subsidiaries with regulatory approval	Limited in aggregate to 40% of bank's capital	Limited in aggregate to 40% of bank's capital	Acquisition of more than 5% requires regulatory approval
Spain	Unlimited; starting January 1, 1992, banks can own up to 100% of stock exchange members	Unlimited through subsidiaries	Unlimited	Permitted, subject to capital-based limits; holding companies currently are not authorized to own shares of banks and industrial firms, but this may be authorized in the near future	Need authorization from Bank of Spain for equity investments equal or above 15%; all purchases and sales of 5% must be communicated to Bank of Spain
Sweden	To be permitted under pending legislation	To be permitted under pending legislation	Generally limited to holding bank premises	Limited	Not prohibited, but such investments are generally not made
Switzerland	Unlimited	Do not engage in insurance activities	Generally limited to holding bank premises	Unlimited	Not prohibited, but such investments are generally not made
Thailand	Unlimited through subsidiaries	Unlimited through subsidiaries	Generally limited to holding bank premises	Permitted to hold up to 10% interest	Maximum equity interest limited to 5%
United Kingdom	Unlimited, usually through subsidiaries	Unlimited through subsidiaries	Unlimited	Permitted subject to consultations with the Bank of England	No prohibitions contained in The Banking Act of 1987[6]
United States (current federal law)	Limited, through affiliates	Not generally permitted	Generally limited to holding bank premises	Permitted to hold up to 5% of the voting shares through a holding company	Permitted to make noncontrolling investments up to 25% of the voting shares

[6] No statutory prohibition, but the Bank of England has indicated it would not favor controlling investments by industrial firms in major banks.

	Securities	Insurance	Real Estate	Bank Investments in Industrial Firms	Industrial Firm Investments in Banks
United States (Department of the Treasury proposal)[7]	Unlimited through affiliates[8]	Unlimited through affiliates	Permissible through diversified holding company structure	Affiliations permissible through diversified holding company structure	Permissible through diversified holding company structure
United States (Senate Banking Committee Proposal S. 543)[7]	Unlimited through affiliates[8]	More restrictive than current law.	No change from current law	No change from current law	No change from current law
United States (House Banking Committee Proposal H.R. 6)[7]	Unlimited through affiliates[8]	Permissible through diversified holding company structure	Permissible through diversified holding company structure	Affiliations permissible through diversified holding company structure	Permissible through diversified holding company structure

[7] Treasury's proposal included a requirement that international banks terminate their branches and agencies and conduct their commercial banking business through bank subsidiaries in order to have U.S. securities and other new financial affiliates. The Institute and the Federal Reserve expressed concerns about this proposal because it would mean the capital resources of the worldwide bank would not support the commercial banking activities in the United States and could reduce the amount of capital available to provide financing in the U.S. Moreover, such a requirement would be inconsistent with the practice of U.S. banks operating through branches throughout the world and with the policy of national treatment. Both the House and the Senate Banking Committees eliminated the requirement, thereby permitting international banks to retain branches and agencies and to affiliate with other financial firms. The Committees also mandated that the Federal Reserve apply capital standards to those international banks seeking to have U.S. financial affiliates comparable to capital standards for U.S. banks with similar affiliates.

[8] There has been much debate in the U.S. Congress about the need for so called "firewalls" between a bank and its securities affiliate. Proposals have included prohibitions on loans and other extensions of credit to the securities affiliate; prohibitions on credit enhancements for securities underwritten by the affiliate; restrictions on credit to customers of the affiliate to buy or repay securities underwritten by the affiliate; and restrictions on interlocking officers and directors. While Treasury's original proposal generally left the issue of firewalls to regulatory discretion, the House Banking Committee bill mandated absolute prohibitions on most relationships between the bank on the one side and its securities affiliate and the affiliate's customers on the other. The House Energy and Commerce Committee may propose even more stringent firewalls than those adopted by the House Banking Committee. The Senate Banking Committee bill included similar restrictions, but gave the Federal Reserve Board flexibility to grant limited exceptions for well capitalized banks, including secured loans to the securities affiliate up to 5 percent of the bank's capital; credit enhancements in the aggregate up to 40 percent of the bank's capital; limited extensions of credit to purchase or repay securities underwritten by the affiliate; and exemptions from the interlock prohibitions for up to one half of the officers and directors.