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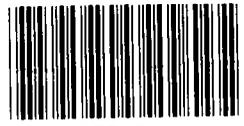
REPORT BY THE U.S.

General Accounting Office

Supervisory Examinations Of International Banking Facilities Need To Be Improved

The Federal Reserve authorized U.S.-based banks to establish International Banking Facilities (IBFs) to attract international banking business. IBFs were granted exemptions from certain requirements levied on banks; however, the Federal Reserve imposed other restrictions to prevent IBF activities from influencing the domestic money supply.

The Federal Reserve, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency are responsible for examining IBFs for compliance with the restrictions. GAO found that these agencies did not ensure that all IBF transactions are conducted in compliance with prescribed regulations. Insufficient guidance has been given bank examiners for conducting reviews of IBF compliance, and the scope and depth of examinations vary widely. Thus, GAO recommends that the bank regulatory agencies adopt and use more complete and uniform examination guidance.



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SEPTEMBER 20, 1984

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

B-212749

The Honorable C. T. Conover
Comptroller of the Currency

The Honorable William M. Isaac
Chairman, Federal Deposit Insurance
Corporation

The Honorable Paul A. Volcker
Chairman, Board of Governors of
the Federal Reserve System

We reviewed examinations of International Banking Facilities (IBFs) conducted by the federal bank regulatory agencies. An IBF is a segregated set of accounts established by a U.S.-based financial institution to conduct international banking business with non-U.S. residents. IBFs are freed from certain regulatory requirements in order to enhance their ability to compete for funds. However, this regulatory freedom is accompanied by restrictions on the scope of their activities. IBFs are examined to ensure that these restrictions are complied with. According to the Federal Reserve, compliance with these restrictions is essential for minimizing any adverse effects on the Federal Reserve's ability to control the domestic money supply.

Our review disclosed that existing IBF examinations do not ensure that IBF transactions are conducted in accordance with prescribed regulations. Specifically, we found the following:

- Bank examiners did not review some IBFs, and their examinations of others were generally not sufficient to ensure compliance with the restrictions.
- The federal bank regulators provided examiners only limited guidance on how to conduct IBF examinations.

OBJECTIVES, SCOPE, AND METHODOLOGY

We initiated this review to determine whether IBF examinations conducted by federal bank regulatory agencies are adequate to ensure compliance with restrictions imposed on IBF activities. Our review covered the Federal Reserve, the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC), all of which examine IBFs as part of their commercial bank examinations. We also wanted to compare the examination approaches used by these agencies to ascertain whether uniform minimum standards for ensuring IBF compliance were in place.

We conducted our work at the Washington headquarters of the Federal Reserve, OCC, and FDIC, as well as offices of these agencies in New York, Miami, Atlanta, San Francisco, Seattle, and Los Angeles, which are major centers of international banking activity. As of August 31, 1983, 384 of the 471 IBFs established by financial institutions were located at these centers. The state of New York primarily supervises the 116 branches and agencies of foreign banks¹ in New York that have established IBFs. At the above locations, we reviewed examination reports and any associated IBF workpapers for 94 of the 131 IBFs established by financial institutions that had been examined at the time of our visits. In our selection, we emphasized reviewing IBFs with larger assets, as well as those we could review without disturbing ongoing bank examinations. Since our review covered more than two-thirds of examinations conducted in the centers with most of the IBF activity, we therefore believe that our findings are representative of current IBF examination practices.

The above 94 financial institutions were examined as of various dates from December 1981 through June 1983. In reviewing these examination reports and workpapers, we determined whether the nature and extent of the work done ensured compliance with IBF regulations. If we could not determine this from the workpapers or reports, we discussed the examination scope and procedures with agency examiners or other officials.

This review was conducted in accordance with generally accepted government auditing standards.

THE FEDERAL RESERVE CREATED IBFs
TO COMPETE FOR INTERNATIONAL
BANKING BUSINESS

The Federal Reserve authorized IBFs to enhance the international competitive position of banks located in the United States. In general, it did this by making regulations pertaining to IBFs the same as those covering foreign offices of U.S. banks. Before IBFs were created, much of the growth in international banking had occurred through these foreign offices. The IBF mechanism was viewed as a way of bringing some of this business to the United States. Some IBF proponents claimed that these institutions would cause an increase in U.S. banking business which would in turn lead to increased U.S. employment and tax revenues.

¹Branches of foreign banks can conduct all commercial banking activities engaged in by U.S.-owned domestic banks, such as lending and deposit taking; however, agencies of foreign banks are prohibited from accepting deposits.

U.S.-based financial institutions, including domestic banks and savings and loan associations, Edge Act corporations,² and agencies and branches of foreign banks, were allowed to establish IBFs by Federal Reserve regulations (12 C.F.R. 204) issued in December 1981. As of August 31, 1983, financial institutions had established 471 IBFs with total assets exceeding \$196 billion. These assets can be broken down as follows: IBFs of foreign banks had more than \$106 billion in assets, and IBFs of large U.S.-chartered banks had about \$78.5 billion in assets. Other U.S. financial institutions, such as Edge Act corporations, held the remaining assets.

IBFs FREE AS WELL AS
RESTRICT FINANCIAL INSTITUTIONS

To help IBFs attract business, the Federal Reserve offered them operating advantages. First, IBFs do not have to maintain non-interest earning reserves to support deposits as do commercial banks. Second, IBF deposits are not insured by the FDIC, but neither do IBFs pay assessments to FDIC as do insured banks. Third, although IBFs pay federal taxes, some states have granted them favorable tax treatment. Together, these advantages give IBFs lower operating costs than commercial banks.

Since IBFs are free from reserve requirements, which constitute one way the Federal Reserve carries out domestic monetary policy, the Federal Reserve needed to segregate IBF activities so that they would not affect the domestic money supply. In general, Federal Reserve regulations restrict IBFs' business to foreign residents, including foreign affiliates of U.S. corporations, foreign banks, and other IBFs, to ensure that IBF transactions remain isolated from the domestic U.S. economy. IBF deposits must meet certain eligibility standards regarding maturity and size, and deposits of customers other than eligible banks must be used solely to support the non-U.S. operations of the depositor. Similarly, IBF loans to nonbank customers must be used only to finance operations of the borrower outside the United States. Financial institutions must communicate in writing the Federal Reserve's policy regarding

²These corporations are subsidiaries of banks which engage exclusively in international transactions. They may have offices outside the state where their parent banks are located. However, they do not have the same amount of regulatory freedom given to IBFs. For example, they must maintain the same level of reserves applicable to commercial banks. Therefore, these corporations can benefit by establishing an IBF to conduct some international business free of reserve requirements.

the use of IBF deposits and loans to each nonbank customer of an IBF. The financial institution must obtain written acknowledgment of receipt of this statement from those customers who are foreign affiliates of U.S. corporations. In addition, IBFs of financial institutions must report information on their assets and liabilities to the Federal Reserve on a monthly or quarterly basis, depending on the size of the IBF.

Incentives exist for placing deposits in IBFs that should be placed in domestic accounts

Given the exemption of IBF deposits from reserve requirements, incentives exist for both financial institutions and depositors to violate the restrictions on IBF activity by placing deposits in IBFs that should have been placed in regular domestic accounts. If such funds were deposited in IBFs, institutions would have additional interest-earning funds which would otherwise be held as non-interest earning reserves (deposits with the Federal Reserve or held as cash in a bank's vault).

Shifting domestic transactions accounts into IBF accounts, which are not included in the U.S. money supply figures, could adversely affect the Federal Reserve's control over the money supply. In reaction to this unanticipated reduction in the money supply, the Federal Reserve might attempt to increase the supply of money, which could result in an unwarranted growth in the money supply. It is not possible to predict whether this would occur; nor, if it did, whether the amount of funds improperly classified would be large enough to have repercussions on control of the money supply. However, it is important to emphasize that the rationale for the special restrictions placed on IBFs and examination for compliance with the restrictions is based on this possibility.

SUPERVISORY EXAMINATIONS OF IBFs ARE NOT SUFFICIENT TO ENSURE COMPLIANCE WITH RESTRICTIONS

IBF assets and liabilities are reviewed as part of the normal onsite examination of a financial institution's safety and soundness. In addition, because of the unique restrictions placed on IBF operations, examiners try to determine (1) whether policies, procedures, and internal controls relating to the administration of the IBF are adequate to ensure compliance with restrictions and (2) whether IBF management personnel are operating in conformance with the established guidelines.

Because the Federal Reserve imposed the IBF restrictions to avoid problems in conducting its monetary policy and given the profit incentives that can exist to avoid these restrictions, examiners need to ensure compliance with them. Since three separate federal agencies, and several different regional offices of each, conduct IBF compliance reviews during examinations, some recognized minimal standards are needed to ensure that all IBFs are complying with Federal Reserve regulations and that all IBFs are treated the same. The desirability of uniform examination standards among the federal bank regulators was clearly stated by the Congress in Title X of the Federal Financial Institutions Regulatory and Interest Rate Control Act of 1978 (Public Law 95-630). In that act, the Congress established the Federal Financial Institutions Examination Council to promulgate uniform examination policies and procedures.

The federal bank regulators generally do not examine IBFs thoroughly enough to determine whether financial institutions under their supervision are complying with Federal Reserve regulations. Both the OCC and the FDIC examinations varied in their scope and depth. Federal Reserve examinations were generally more comprehensive, but for some of these examinations we could not find sufficient evidence to show that compliance with IBF restrictions was assessed.

IBFs are examined by federal
and state bank regulatory agencies

Responsibility for examining an IBF rests with the same federal bank regulatory agency--Federal Reserve, OCC, or FDIC--that examines the financial institution's home office. Of the 471 IBFs established by financial institutions, 303 were supervised by the Federal Reserve, 112 by OCC, 55 by FDIC, and 1 by the Federal Home Loan Bank Board. Some state banking authorities, particularly New York and California, also examine IBFs. In many cases, states share examination responsibilities with the Federal Reserve and FDIC on a rotating basis, but in New York the Federal Reserve defers examinations of U.S. branches and agencies of foreign banks, including their IBFs, almost entirely to state examiners.

Bank regulatory agencies' examinations
vary in their scope and depth

We reviewed Federal Reserve examinations for 44 financial institutions with fully operating IBFs. We found that four IBFs

were not examined for compliance with restrictions during the banks' examinations for safety and soundness. In the remaining 40 examinations, IBF deposits and loans were normally verified for eligibility, and IBF reports to the Federal Reserve were checked for accuracy. In several cases the examiners noted errors in these reports.

Federal Reserve examiners' documentation of these tests, however, was sometimes incomplete. For 10 of the 40 banks, examiners did not use a checklist that was distributed by the Federal Reserve Board and was required by the Federal Reserve Banks we visited for testing IBF regulatory compliance. Our review prompted the Assistant Chief Examiner of the Federal Reserve Bank of New York to issue a notice stating that appropriate documentation of IBF examinations be retained by Federal Reserve examiners.

Our review of examinations for 35 OCC-supervised financial institutions found that 11 IBFs had not been checked for regulatory compliance during commercial examinations. Two banks were examined twice in the period we reviewed, and their IBFs were not checked for compliance either time.

The scope and depth of IBF compliance reviews varied in the remaining 24 institutions. In most of these 24 banks, our reviews of workpapers and discussions with examiners or supervisory officials showed that IBF deposits were not checked for various eligibility criteria and that OCC examiners did not always segregate all IBF loans from other loans for a separate analysis of the unique restrictions applicable to them. For example, workpapers indicated that examiners reviewed IBF deposits for foreign deposit restrictions during 6 of the 24 examinations and reviewed IBF loans for the foreign use of proceeds requirement in 8 of the 17 banks that had nonbank IBF loans. For 1 of the 24 banks, enough documentation was available to indicate that 4 IBF loans may have been ineligible. Because supervisory officials stated that IBF loans were not normally separated from other loans for IBF compliance reviews, the above loans' eligibility was subject to question. Finally, compliance with requirements for submitting IBF reports to the Federal Reserve was checked by examiners in one-third of the 24 banks, and the accuracy of IBF reports was checked in 3 of them.

Bank examinations conducted by FDIC contained few workpapers indicating an adequate review of IBF compliance. Our review of 15 FDIC-supervised financial institutions found that 1 bank's IBF was not reviewed for compliance purposes. Another bank's IBF review consisted of an interview with the bank's vice-president. In the

other 13 banks, we found evidence in the workpapers that FDIC examiners had checked 3 banks' IBF deposits and loans for eligibility. One of the remaining 10 banks had made an IBF loan to a domestic corporation. Examiners had not checked this loan for IBF compliance and could not tell us if the loan was eligible or not. Finally, only one of the banks' IBF reports to the Federal Reserve was checked for submission or accuracy.

THE FEDERAL BANK REGULATORY AGENCIES
HAVE NOT PROVIDED SUFFICIENT IBF
EXAMINATION GUIDANCE TO EXAMINERS

Limited guidance has been given examiners on how to review the unique restrictions that apply to IBF deposits and loans. Although more comprehensive examination guidelines exist, the most widely distributed is a checklist developed by the Federal Reserve Bank of New York. Use of the checklist was not required by OCC and FDIC and, until our review, it had not been disseminated to some of the OCC examination staff. Furthermore, the Federal Reserve did not submit IBF examination guidance to the Federal Financial Institutions Examinations Council (Council) for review or comments, even though the Council was established to promulgate uniform examination policies and procedures.

The Federal Reserve has not
disseminated the best available
IBF examination guidance

The New York checklist specifies an assessment of IBF operations through a series of 18 questions that ask for a "yes" or "no" answer for each IBF restriction, as well as for internal controls and overall operation of the IBF. However, the checklist provides no detailed procedures for examining IBF compliance with these restrictions, such as needed scope, appropriate methodology, or required documentation.

The Board of Governors of the Federal Reserve System forwarded the New York checklist to each Federal Reserve Bank with instructions to use all or part of it at the bank's discretion. The Board asked that, at a minimum, examiners test compliance with certain restrictions on IBF transactions with nonbank customers. The bank in New York, however, instructed its examiners to use the complete checklist in determining compliance with IBF restrictions. It also stressed that tests of compliance should include a comprehensive review of IBF accounts. Still, it did not include scope, methodology, or documentation standards for examining IBF restrictions.

The Federal Reserve Bank of San Francisco has independently developed more comprehensive examination guidelines using the IBF checklist and other data sources. This examination guidance specifies verification steps and documentation requirements through 12 audit procedures. This guidance was not distributed to the other Federal Reserve districts, since the Federal Reserve Board officials were unaware that the San Francisco IBF examination guidelines existed until our review.

OCC and FDIC did not develop detailed IBF examination guidance

OCC examination guidance consists of a memorandum from the Director, International Banking Activity, which requires test checks of several IBF restrictions. The memorandum includes the New York Federal Reserve checklist as an attachment but gives national bank examiners the discretion to use all or part of it, as deemed appropriate.

We found that OCC's examination guidance had not been disseminated to field examiners in the New York Region and the Los Angeles sub-office of the San Francisco Region because of an oversight. Prompted by our inquiries in March 1983, the New York Region directed its examiners to complete the New York Federal Reserve checklist for all IBFs and retain it in the workpapers. We made OCC examiners in Los Angeles aware of the IBF examination guidelines during our visit in July 1983.

However, OCC had not incorporated the examination of IBF restrictions in its Comptroller's Handbook for National Bank Examiners, the basic manual directing OCC examination procedures. It did not do so, according to OCC's Director of International Banking Activity, because the agency felt these IBF restrictions centered on monetary policy considerations and were not critical in determining a financial institution's liquidity or solvency. However, the Director agreed that examinations of IBF regulatory compliance might not be consistent or complete without including IBF guidance in the handbook. In its comments on this report, OCC stated that it is drafting IBF examination procedures for inclusion in the next handbook revision to ensure that proper guidance is widely disseminated.

FDIC bank examiners were given the New York Federal Reserve checklist in August 1982, 9 months after IBFs were authorized and about 10 months after the Federal Reserve transmitted the checklist to FDIC. However, FDIC does not require examiners to fill out the checklist and has not developed any specific examination procedures.

IBF examination guidance was not
submitted to the Federal Financial
Institutions Examination Council

Standardized IBF examination procedures and guidelines were not developed by the Council, though it was created in 1978 (by Public Law 95-630) to establish uniform principles and standards for federal examinations of financial institutions. According to the Federal Reserve, it did not submit IBF examination guidance to the Council because the Federal Reserve has had sole responsibility for authorizing IBFs and for writing the IBF regulations. But even though the Federal Reserve is responsible for promulgating regulations, those regulations must be enforced by other agencies as well. Therefore, these agencies need to have sufficient, uniform procedures as mandated by the Congress when it established the Council.

CONCLUSIONS

The federal bank regulatory agencies have not ensured that all IBFs are complying with regulatory restrictions. This is because recognized minimum examination standards have not been developed and utilized, as shown by the variations in the scope and depth of examinations conducted by the OCC, FDIC, and Federal Reserve. The Federal Reserve's examinations are the most comprehensive, but documentation of examinations was sometimes incomplete, and scope and methodology standards for reviews have not been disseminated.

Because we cannot directly examine banks or IBFs, we were not able to quantify the extent to which IBFs may be misused. We are nevertheless concerned that since IBF examinations are not adequate, and since financial incentives exist that encourage ineligible IBF transactions, the potential for misuse of IBFs exists.

We recognize that some IBF regulations may be difficult to enforce even with an intensive examination effort. According to some agency officials, the fungibility of money, especially for a multinational corporation, virtually precludes an absolute determination of usage. Moreover, as the Federal Reserve staff stated, regulators should avoid examination procedures that are so severe that they minimize the attractiveness of doing business in IBFs and jeopardize the benefits that were anticipated from them.

Nonetheless, compliance with these restrictions should be reasonably and effectively enforced through supervisory examinations conducted by the bank regulatory agencies. For this reason,

it is important that these examinations be undertaken using appropriate examination procedures and guidelines.

RECOMMENDATIONS

We recommend that the Chairman of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, and the Chairman, FDIC, develop and use examination procedures to ensure compliance with IBF restrictions. They should work together to adopt more complete and uniform guidance to ensure compliance with the restrictions on IBF activities. These guidelines should include procedures such as (1) minimum scope required, (2) methodologies to be used, and (3) documentation needed.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on a draft of our report, both the Federal Reserve and the OCC acknowledged the need for cooperation in ensuring that adequate uniform IBF examination guidance is adopted, and both agencies pledged in general to improve this uniformity. The OCC also outlined plans to include procedures in its examiners' handbook to further ensure uniform guidance.

However, neither those two agencies nor the FDIC felt that more specific, written IBF examination procedures and documentation were needed. Both the Federal Reserve and the FDIC felt it is important and cost-effective to give examiners flexibility in applying procedures and in documenting their work.

We agree that examiners should have flexibility, and certainly work documentation should not become overly burdensome. However, since our review disclosed a wide variation in the scope and depth of IBF examinations and evidence that raised doubts about the eligibility of a few IBF loans, we believe that written uniform guidelines are needed, as well as adequate documentation of steps taken by examiners. The guidelines can provide for flexibility but still ensure that minimal, proper steps are taken to ensure that IBF restrictions are not circumvented and that the Federal Reserve's monetary control is not compromised.

The FDIC, noting that banks it supervised had insignificant IBF operations, believed that we overstated our concern about improper transactions affecting money supply analysis. The Federal Reserve, which is charged with helping control the Nation's money supply, promulgated the regulations to prevent IBF activities from adversely affecting the domestic money supply. If these

regulations are important to the conduct of monetary policy, then compliance with them should be reasonably ensured.

The OCC suggested a wording change to clarify our overall conclusion that agencies' examinations are not ensuring compliance with regulations. We incorporated the suggestion in our final version.

Comments from the Federal Reserve, OCC, and FDIC are reprinted in the appendices to this report.

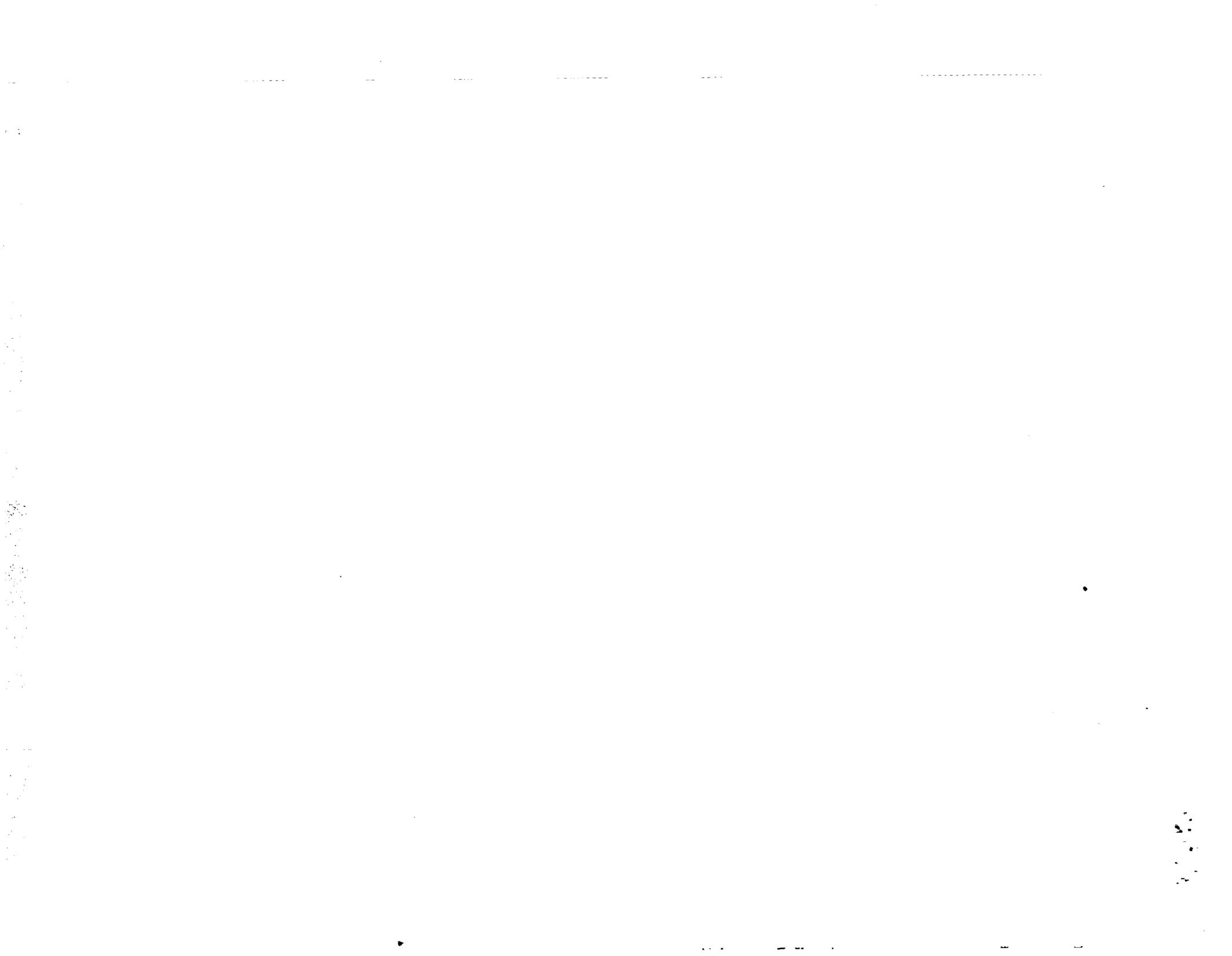
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As you know, 31 U.S.C. §720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report.

Copies of this report are being sent to the Director, Office of Management and Budget, and to interested members and committees of the Congress.



William J. Anderson
Director





Comptroller of the Currency
Administrator of National Banks

Washington, D. C. 20219

April 25, 1984

Mr. William J. Anderson
Director
General Government Division
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Anderson:

We are pleased to respond to the draft report titled Supervisory Examinations of International Banking Facilities Need to be Improved. The draft report concludes that financial institutions' compliance with international banking restrictions "is not being adequately enforced by Federal regulators". By this comment, the General Accounting Office implies that there were occasions where International Banking Facility transactions were being conducted in circumvention of existing restrictions, and bank regulatory authorities did not act to cure the deficiency. After reading the draft report, we believe that the GAO more properly intends to indicate that existing examination procedures preclude the regulatory agencies from assuring that all transactions of IBF's are conducted in accordance with prescribed regulations.

The OCC believes that overall the examination of International Banking Facility assets and liabilities does not need further refinement. IBF booked transactions are evaluated in the same manner and using the same procedures as all other assets and liabilities. The OCC generally agrees, however, with the General Accounting Office's recommendation that more uniform guidance needs to be issued to the field staff regarding the requirements of IBF regulations. Examination procedures will be included in the Comptrollers Handbook for National Bank Examiners. The inclusion of these procedures in the handbook will ensure that proper guidance is disseminated widely. We are in the process of drafting these examination procedures to be included in the next revision of the handbook.

Sincerely yours,

C. T. Conover

C. T. Conover
Comptroller of the Currency

FDICFederal Deposit Insurance Corporation
Washington, D.C. 20429

Division of Bank Supervision



April 20, 1984

Mr. William J. Anderson
Director
General Government Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

We have reviewed with interest the draft report entitled "Supervisory Examinations of International Banking Facilities Need to be Improved."

International banking facilities (IBFs) came into existence effective December 3, 1981. According to the draft report, your office reviewed 15 FDIC bank examinations made between that date and January 31, 1983. We call to your attention the fact that throughout this period, and continuing to the present, IBF operations of FDIC-supervised banks are comparatively insignificant.

The draft report speaks of a potential disruption of Federal Reserve's monetary control: bank violations which misallocate domestic IBF transactions might result in Federal Reserve measures which could cause ". . . an unwarranted growth in the money supply." Our experience is that the overwhelming majority of banks avoid violations of regulations. Even if this were not the case, the prospect of widespread high volume violations sufficient to undermine money supply analysis is highly unlikely and we believe this concern to be overstated.

On August 12, 1982, the Corporation distributed to Regional Offices a 16-page directive relating to examinations of IBFs. Included were the Federal Reserve Board's relevant policy statement, its regulations, the questionnaire used by Federal Reserve examiners, and interpretive material. Your draft report criticizes FDIC's characterization of the directive as background and guidance materials. It is often less effective, as a matter of policy, to establish inflexible procedures for examinations. We rely on the judgment of our experienced examiners to expand or condense examination procedures, as appropriate to each case. Therefore, although we offer guidance on IBFs and other subjects, we emphasize our reliance on examiners' own evaluations of the adequacy of any given procedure.

Mr. William J. Anderson

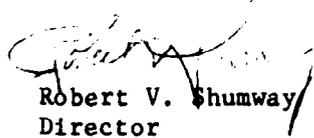
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April 20, 1984

Various references in the draft report seem to confuse examination workpaper standards with workpaper standards for independent audits of banks by certified public accountants. We do not find it cost effective to extensively document the tests and procedures we apply, particularly in areas of bank operations that appear to be functioning acceptably.

We appreciate the opportunity to comment on subject draft report.

Sincerely,



Robert V. Shumway
Director



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 18, 1984

Mr. William J. Anderson
General Government Division
United States General Accounting Office
Washington, D. C. 20598

Dear Mr. Anderson:

The Board has reviewed the draft report prepared by your office concerning the examination of international banking facilities (IBFs) for compliance with the Board's regulations.

The Board views the checking of compliance with the regulations as an important function of the bank examination process, not only in examinations conducted by the Board but also, where relevant, for examinations conducted by the other bank regulatory agencies. As your report notes, it is Federal Reserve policy that as a general matter examiners check banking institutions with IBFs for compliance with the IBF regulations during an examination. In 40 out of 44 cases reviewed by the GAO, examination work papers confirmed that such a review was in fact undertaken by Federal Reserve examiners.

A number of your comments concern the scope of examinations and the information available in examination work papers. Although the Federal Reserve provides general policy guidelines for checking IBF compliance, the Reserve Banks have been given discretion to tailor the scope of examinations to meet individual circumstances. The Board believes this flexibility contributes to cost effective examinations. This flexibility is also granted in determining the extent to which examiner reviews need to be documented in the work papers.

With regard to comments concerning the examination procedures of other agencies, the Board understands that it is the general policy of these agencies to check compliance with Federal Reserve regulations during bank examinations. Further, the Board understands that actions are being taken to assure this general policy will be fully applied in the case of IBFs. Board staff will consult with staff at the other bank regulatory agencies concerning implementation of appropriate procedures.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "William W. Wiles".

William W. Wiles
Secretary of the Board

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