

**CONTROL OR SUBSTANTIAL NON-CONTROLLING INTEREST IN  
FINANCIAL CORPORATIONS ABROAD** (12/00)

**Introduction**

1. Banking corporations wishing to control or to hold substantial non-controlling interest in an auxiliary corporations or other financial corporations abroad, including establishing such (henceforth “an overseas entity”) shall act as set out in this regulation.
2. According to the recommendations of the Basle Committee, which have been adopted by many countries, the supervisory authorities in the country of the parent corporation must ascertain that the parent banking corporation shall have procedures, control, and supervision regarding each of the corporations it holds abroad (including those held via subsidiaries abroad).

**Applicability**

3. (a) This regulation shall apply to all banking corporations.  
(b) This regulation does not apply to a corporation’s holdings in a foreign corporation as specified in section 31 of the Banking (Licensing) Law, 5741–1981.

**Notification**

4. (a) (1) A banking corporation wishing to control or have substantial non-controlling interest in an overseas entity, including establishing such, must notify the Supervisor of Banks accordingly, in writing, 45 days prior to obtaining control or substantial non-controlling interest (whether directly or indirectly via foreign subsidiaries or a foreign second-tier subsidiaries (subsidiaries of subsidiaries)), to make it possible to ensure that it is properly prepared for that activity.  
(2) Subsection (1) herein does not derogate from the requirement to obtain a specific authorization from the Supervisor of Banks as required according to a permit granted to a banking corporation or to a banking holding corporation.  
(b) In this 45-day period, the Supervisor of Banks will ascertain that the conditions and steps taken meet the requirements set by the Banking Supervision Department in the Appendix to this regulation. If within the stated period the Supervisor advises the banking corporation that its state of preparedness to hold an overseas entity does not

meet these requirements, the banking corporation will be required to change its preparedness accordingly before obtaining control or substantial non-controlling interest.

- (c) In its notification, the banking corporation shall give details of its business plan, the extent of its proposed holdings, and the overall control chart showing each one of the entities involved in the holding. It shall also detail the conditions it imposed and the steps it took regarding the existence of proper supervision and control of the overseas entity's activity and its fulfillment of all the requirements specified in the Appendix. The banking corporation shall also report on any existing management or trust agreements of the overseas entity, and on branches or corporations controlled by the overseas entity or in which it has substantial non-controlling interest.

### **Reporting**

5. The banking corporation shall submit to the Banking Supervision Department periodic reports or any other information on an overseas entity at intervals and in a manner to be determined by the Supervisor.

## APPENDIX

### **Measures to be taken by the management of a banking corporation to ascertain supervision and control of an overseas entity**

#### **Areas of activity and risks**

1. To chart and determine all the areas of activity intended for the overseas entity, and all possible risks arising from such (credit, operational, management from a distance, currency, country, interest, liquidity, positions, off-balance-sheet, legal, etc.), and to set rules and limits for these risks. In this context attention must also be paid to the level of supervisory authorities in the host country, including arrangements, for sending audit reports conducted in the overseas entity to the Supervisor.

#### **Procedures for an overseas entity**

2. To ascertain that the overseas entity has procedures and division of duties and authority in all areas of activity and risks as stated in (1) above, and to determine the control and supervisory bodies which will act within it to ascertain the existence of the said procedures and the way they operate, including how the board of directors, external auditor, and the body which appoints them, are appointed. In this context the procedures must be checked to see if the body which implements transactions in the overseas entity is separate from that which is responsible for recording and reporting and from that for control and supervision.

#### **Reports to the parent banking corporation**

3. To determine a procedure prescribing the types of reports that must be received and rules for their preparation, measurement, distribution frequency, etc. Furthermore, procedures shall be determined for the submission by the management of the parent banking corporation to the board of directors, of periodic summaries and analyses on each of the overseas entities, at least semi-annually, including any conclusions drawn.

### **Control and supervision of the parent banking corporation**

4. To ascertain that the parent banking corporation has procedures for the division of duties and determining areas of responsibility and authority, for the purpose of supervising and controlling the risks of the overseas entity, including control of the propriety and accuracy of the reports and assessing the inherent risks. These procedures shall also specify who is responsible for their preparation, enforcement, and regular updating. In this context, the procedures must ensure the right of the parent banking corporation itself to carry out ongoing or ad hoc examinations in the overseas entity, in a manner and with a frequency to be determined in the procedures.

### **Examination by the Banking Supervision Department**

5. To specify in the procedures of the parent banking corporation and of the overseas entity the fact that the Supervisor of Banks shall have the right to carry out an examination of the overseas entity as necessary and on request (in coordination with the authorities in the host country), including the receipt of all information on customers and credit.

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