In early December, 1994, the Banking Regulation and Supervision staff of the Board of Governors of the Federal Reserve System ("the Board") informally announced the Board's intention to eliminate the practice in some Federal Reserve Districts of requiring that U.S. branches and agencies of foreign banks establish and maintain an Allowance for Loan and Lease Losses (ALLL). On January 17, 1995, the Board issued a formal announcement of this decision to all of the Federal Reserve System District Banks ("Reserve Banks"). The Reserve Banks will be sending all U.S. branches and agencies, including Federal branches and agencies ("Federal branches"), a letter explaining this change in the Federal Reserve's ALLL policy.

The purpose of this memorandum is to clarify the relationship of the Federal Reserve's announcement to the existing ALLL policy of the Office of the Comptroller of the Currency ("OCC") for Federal branches. As you know, the OCC's ALLL policy for Federal branches is articulated in Banking Circular 201 (Revised), dated February 20, 1992, and Federal Branch and Agency Circular #1 (Revised), dated July 29, 1993. While the latter issuance requires that an ALLL be maintained for each Federal branch adequate to absorb all estimated inherent losses in the assets booked at the branch, it specifically provides a process by which a foreign bank, with the approval of the OCC, need not book the ALLL at the Federal branch. A number of foreign banks have availed themselves of that flexibility since this policy was established. We also note that the Board's policy explicitly recognizes that individual federal and state licensing authorities, for statutory or other reasons, may require an ALLL at a branch or agency.

The Federal Reserve's decision uniformly to eliminate any requirement by Reserve Banks for an ALLL does not alter the OCC's requirement that each Federal branch maintain an ALLL within the flexible requirements of the above-mentioned circulars. However, the OCC will continue to review this matter, and we welcome any comments that you may wish to provide.

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OCC 1995-15 has been replaced by Comptroller's Handbook - Federal Branches and Agencies Supervision.