

PART 601—DISTINCTIVE PAPER FOR UNITED STATES CURRENCY AND OTHER SECURITIES

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AUTHORITY: 5 U.S.C. 301; 12 U.S.C. 418; 18 U.S.C. 474A.

SOURCE: 61 FR 10895, Mar. 18, 1996, unless otherwise noted.

§ 601.1 Notice to the public.

The Secretary of the Treasury, by authority of law, has adopted a new distinctive paper for use in printing United States currency in addition to the existing distinctive papers for use in printing United States currency and other securities.

§ 601.2 Description of paper.

The paper utilized in the printing of United States currency and public debt issues is cream-white bank note paper which must contain security features prescribed by the Secretary of the Treasury. All currency paper shall contain distinctive fibers, colored red and blue, incorporated in the body of the paper while in the process of manufacture and evenly distributed throughout. In addition to distinctive red and blue fibers, currency paper shall contain, for denominations prescribed by the Secretary of the Treasury, security threads embedded beneath the surface of the paper during the manufacturing process. Security threads shall contain graphics consisting of the designation "USA" and the denomination of the currency, expressed in alphabetic or numeric characters. In addition to the security thread, for the denominations prescribed by the Secretary of the Treasury, the paper will bear a watermark identical to the portrait to be printed on the paper.

§ 601.3 Use of paper.

The new distinctive paper shall be used for printing Federal Reserve Notes of the denominations prescribed by the Secretary of the Treasury. The

use of the existing distinctive papers, the distinctive features of which consist of distinctive fibers, colored red and blue, incorporated in the body of the paper while in the process of manufacture and evenly distributed throughout, and the security thread containing graphics consisting of the designation "USA" and the denomination of the currency, will be continued for printing of any currency denomination prescribed by the Secretary of the Treasury.

§ 601.4 Use of paper; interest-bearing securities of the United States.

The existing distinctive papers shall be used for the printing of interest-bearing securities of the United States, and for any other printing where the use of distinctive paper is indicated.

§ 601.5 Penalty for unauthorized control or possession.

The Secretary of the Treasury hereby gives notice that the new distinctive paper, together with any other distinctive papers heretofore adopted for the printing of paper currency or other obligations or securities of the United States, is and will be subject to the provisions of 18 U.S.C. 474A which provides, in part, that it is against the law to possess any paper, or facsimile thereof, designated by the Secretary of the Treasury for the printing of U.S. currency or any other security of the United States, except with the permission of the Secretary or the authorized official. This crime is punishable by a fine not to exceed five thousand dollars or imprisonment for not more than fifteen years, or both.

PART 605—REGULATIONS GOVERNING CONDUCT IN BUREAU OF ENGRAVING AND PRINTING BUILDINGS AND ON THE GROUNDS OF WASHINGTON, DC AND FORT WORTH, TEXAS

AUTHORITY: 5 U.S.C. 301; Delegation, Administrator, General Services, dated December 3, 1992; Treasury Delegation, Assistant Secretary (Management), dated February 4, 1993.

§ 605.1 Conduct on Bureau of Engraving and Printing property.

(a) *Applicability.* These regulations apply to the Buildings and grounds of the Bureau of Engraving and Printing located in Washington, DC at 14th and C Streets SW., and in Fort Worth, Texas, at 9000 Blue Mound Road, and to all persons entering in or on such property. Unless otherwise stated herein, the Bureau of Engraving and Printing Buildings and grounds shall be referred to in these regulations as the "property." It is the responsibility of the occupant agencies to require observance of the regulations in this part by their employees.

(b) *Limited access.* (1) The property shall, in general, be closed to the public. Except as specified in this subsection, access is limited to Bureau of Engraving and Printing (BEP) employees and those individuals having official business with the BEP.

(2) Public tours of the facilities are available during authorized hours, or during such other times as the Director may prescribe.

(3) Limited areas of the premises may be open to individuals, authorized by the Director, by prior arrangement on infrequent occasions that are announced in advance.

(4) All persons entering the property, except for the public areas specified in paragraph (b)(2) of this section, may be required to present suitable identification and may be required to sign entry logs or registers.

(5) All persons entering the property may be subjected to screening by weapons detection devices and shall submit to such screening upon request as a condition of entrance.

(6) All persons entering the property may be subjected to inspections of their personal handbags, briefcases, and other handheld articles.

(7) In the event of emergency situations, access to the property may be more tightly controlled and restricted.

(8) Any entrance onto the property without official permission is prohibited.

(c) *Recording presence.* All persons entering the property may be monitored by means of closed circuit television. Most internal areas of the property, especially production areas, are continu-

ously monitored by closed circuit television. Any video image from the closed circuit television systems may be recorded for later use as needed.

(d) *Preservation of property.* It shall be unlawful for any person without proper authority to willfully destroy, damage, deface, or remove property or any part thereof or any furnishings therein.

(e) *Compliance with signs and directions.* Persons in and on the property shall comply with the instructions of BEP Special Police, other authorized officials, and posted signs or notices.

(f) *Nuisances.* The use of loud, abusive, or profane language, unwarranted loitering, unauthorized assembly, the creation of any hazard to persons or property, improper disposal of rubbish, spitting, prurient prying, the commission of any obscene or indecent act, or any other disorderly conduct on the property is prohibited. The throwing of any articles of any kind in, upon, or from the property and climbing upon any part thereof is prohibited.

(g) *Gambling.* (1) Participating in games for money or other property, the operation of gambling devices, the conduct of a lottery or pool, the selling or purchasing of numbers, tickets, or any other gambling in or on the property is prohibited.

(2) Possession in or on the property of any numbers slip or ticket, record, notation, receipt or other writing of a type ordinarily used in any illegal form of gambling such as a tip sheet or dream book, unless explained to the satisfaction of the Director or his delegate, shall be prima facie evidence that there is participation in an illegal form of gambling in or on such property.

(h) *Intoxicating beverages, narcotics, and drugs.* Entering or being on the property, or operating a motor vehicle thereon, by a person under the influence of intoxicating beverages, narcotics, hallucinogenic or dangerous drugs, or marijuana, or the consumption of such beverages or the use of such drugs or marijuana in or on the property is prohibited. Intoxicants, nonprescription narcotics, and other controlled substances (21 CFR part 1308) are prohibited on the property.

(i) *Soliciting, vending, debt collection, and distribution of handbills.* The unauthorized soliciting of alms and contributions, the commercial soliciting and vending of all kinds, the display or distribution of commercial advertising, or the collecting of private debts other than as provided by law, in or on the property is prohibited. This rule does not apply to BEP concessions or notices posted by authorized employees on the bulletin boards. Distribution of material such as pamphlets, handbills, and flyers is prohibited without prior approval from the Director or his delegate.

(j) *Photographs.* The taking of photographs on the property is prohibited, without the written permission of the Director. Title 18 United States Code, Section 474 provides, in part, that whoever photographs any obligation or other security of the United States, or any part thereof, shall be fined not more than \$5,000 or imprisoned not more than 15 years, or both.

(k) *Dogs and other animals.* Dogs and other animals, except seeing-eye dogs, shall not be brought upon the property for other than official purposes.

(l) *Vehicular and pedestrian traffic.* (1) Drivers of all vehicles in or on the property shall drive in a careful and safe manner at all times and shall comply with the signals and directions of BEP Special Police and all posted traffic signs.

(2) The blocking of entrances, driveways, walks, loading platforms, fire hydrants, or standpipes in or on the property is prohibited.

(3) Parking in or on the property is not allowed without a permit or specific authority. Parking without authority, parking in unauthorized locations or in locations reserved for other persons or continuously in excess of 8

hours without permission, or contrary to the direction of BEP Special Police or of posted signs is prohibited.

(4) This subsection may be supplemented from time to time, with the approval of the Director or his delegate, by the issuance and posting of such specific traffic directives as may be required and when so issued and posted such directives shall have the same force and effect as if made a part hereof.

(m) *Weapons and explosives.* No person while on the property shall carry firearms, other dangerous or deadly weapons, or explosives, either openly or concealed, except for official purposes. According to 18 United States Code, Section 930, "dangerous weapon" means "a weapon, device, instrument, material, or substance, animate or inanimate, that is used for, or readily capable of, causing death or serious bodily injury"

(n) *Penalties and other law.* (1) Violations of this part shall be punishable by a fine of not more than \$50 or imprisonment of not more than 30 days, or both in accordance with 40 United States Code, Section 318c.

(2) Violations of 18 United States Code, Section 930 (dangerous weapon clause) shall be punishable by a fine of \$100,000 or imprisonment for not more than a year, or both, unless there is intent to commit a crime with the weapon, in which case the punishment shall be a fine of \$250,000 or imprisonment for not more than five years, or both.

(3) Nothing contained in this part shall be construed to abrogate any other Federal, District of Columbia, or Texas law or regulations, or any Tarrant County ordinance applicable to the property.

[59 FR 41978, Aug. 16, 1994]

CHAPTER VII—FEDERAL LAW ENFORCEMENT
TRAINING CENTER,
DEPARTMENT OF THE TREASURY

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PART 700—REGULATIONS GOVERNING CONDUCT IN OR ON THE FEDERAL LAW ENFORCEMENT TRAINING CENTER (FLETC) BUILDINGS AND GROUNDS

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AUTHORITY: 5 U.S.C. 301; 31 U.S.C. 321; Treasury Department Order No. 140-01, dated September 20, 1994; 41 FR 5869, dated Feb. 10, 1996.

SOURCE: 63 FR 39730, July 24, 1998, unless otherwise noted.

§700.2 Applicability.

The regulations in this part apply to the buildings and surrounding property of the FLETC, Glynco, Georgia; Artesia, New Mexico; FLETC's Washington Office; any other temporary site FLETC may occupy; and to all persons entering such buildings or property.

§700.3 Recording presence.

Except as otherwise ordered, the property shall be closed to the general public. Admission to the property will be limited to authorized individuals who will be required to obtain a visitor's pass and/or display identification documents, in accordance with FLETC policy.

§700.4 Preservation of property.

It shall be unlawful for any person without proper authority to willfully destroy, damage, deface, or remove property (including Federal records) or any part thereof or any furnishing therein.

§700.5 Compliance with signs and directions.

Persons in and on the property shall comply with the instructions of uniformed FLETC security officers, other authorized officials, official signs of a prohibitory or directory nature, and all applicable statutes and regulations.

§700.6 Nuisances.

The use of loud, abusive, or profane language, except as part of an authorized practical training exercise, unwarranted loitering, unauthorized assembly, the creation of any hazard to persons or things, improper disposal of rubbish, or the commission of any disorderly conduct on the property is prohibited. Prohibited actions in the preceding sentence are limited to those actions which impede, obstruct, or otherwise interfere with the Government's business which includes, among other things, the maintenance of the facility, protection of persons and property, and the smooth administration of academic activities and supporting services. The entry, without specific permission, upon any part of the property to which authorized visitors do not customarily have access, is prohibited.

§700.7 Alcoholic beverages, narcotics, and drugs.

Entering or being on the property, or operating a motor vehicle thereon, by a person under the influence of alcoholic beverages, narcotics, hallucinogenic or dangerous drugs, or marijuana is prohibited. The possession or use of any unlawful drug or substance contrary to the provisions of Federal, State, or local law in or on the property is prohibited.

§700.8 Soliciting, vending, debt collection and distribution of handbills.

The unauthorized soliciting for charity and contributions, commercial soliciting and vending of all kinds, the display or distribution of commercial advertising, or the collecting of private debts, other than legal service of process, in or on the property, is prohibited. This prohibition does not apply to Federal Law Enforcement Training Center concessions or notices posted by authorized employees on the bulletin boards. Distribution of material such

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as pamphlets, handbills, and flyers is prohibited without prior approval of the Director.

§ 700.9 Photographs for news, advertising, or commercial purposes.

Photographs for news, advertising, or commercial purposes may be taken on the property only with the prior permission of the Director. Taking photographs of a student is prohibited without the consent of the student.

§ 700.10 Vehicular and pedestrian traffic.

(a) Drivers of all vehicles on the property shall drive in a careful and safe manner at all times and shall comply with the signals and directions of security officers and all posted traffic signs. All persons on the property must comply with all applicable Federal, State, and local laws. All drivers operating a vehicle on property roadways must possess a valid driver's license.

(b) The blocking of entrances, driveways, walks, loading platforms, or firehydrants in or on the property is prohibited.

(c) Parking is permitted only in authorized locations.

(d) This section may be supplemented from time to time by the Director by the issuance and posting of traffic directives. When so issued and posted, such directives shall have the same force and effect as if made a part hereof.

§ 700.11 Weapons and explosives.

No person, while on the property, shall carry firearms, other dangerous

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or deadly weapons, or explosives, either openly or concealed, except for authorized training or official purposes, in accordance with FLETC regulations.

§ 700.12 Authority to search persons and vehicles.

Persons and vehicles entering upon FLETC facilities are subject to search by authorized security officers.

§ 700.13 Nondiscrimination.

(a) No one entering upon FLETC property shall discriminate against or harass any other person on such property, on the basis of race, color, religion, national origin, sex, sexual orientation, age, or disability. Sexual harassment is a form of sex discrimination and is expressly prohibited.

(b) Appropriate action will be taken against any person who violates any discrimination prohibition contained in paragraph (a) of this section. However, this section does not create any legal rights enforceable against the Department of the Treasury, its officers, or employees, or any other person. Although this section does not create any enforceable rights, actions in violation of the section may still result in civil or criminal action in accordance with applicable laws.

§ 700.14 Smoking.

Smoking of cigarettes, cigars and pipes is prohibited in all FLETC buildings and vehicles.

CHAPTER VIII—OFFICE OF
INTERNATIONAL INVESTMENT,
DEPARTMENT OF THE TREASURY

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APPENDIX A TO PART 800—PREAMBLE TO REGULATIONS ON MERGERS, ACQUISITIONS, AND TAKEOVERS BY FOREIGN PERSONS (PUBLISHED NOVEMBER 21, 1991)

APPENDIX B TO PART 800—PREAMBLE TO REGULATIONS ON MERGERS, ACQUISITIONS, AND TAKEOVERS BY FOREIGN PERSONS (PUBLISHED MAY 25, 1994)

AUTHORITY: Section 721 of Pub. L. 100-418, 102 Stat. 1107, made permanent law by section 8 of Pub. L. 102-99, 105 Stat. 487 (50 U.S.C. App. 2170) and amended by section 837 of the National Defense Authorization Act for Fiscal Year 1993, Pub. L. 102-484, 106 Stat. 2315, 2463; E.O. 12661, 54 FR 779, 3 CFR, 1988 Comp., p. 618.

SOURCE: 56 FR 58780, Nov. 21, 1991, unless otherwise noted.

Subpart A—General

§ 800.101 Scope.

The regulations in this part implement section 721 of title VII of the Defense Production Act of 1950, hereinafter referred to as “section 721” (see § 800.216 of this part). The definitions in this part are applicable to section 721 and these regulations. The principal purpose of section 721 is to authorize the President to suspend or prohibit any merger, acquisition, or takeover, by or with a foreign person, of a person engaged in interstate commerce in the United States when, in the President’s view, the foreign interest exercising control over that person might take action that threatens to impair the national security. In addition, section 721 authorizes the President to seek divestment or other appropriate relief in the case of concluded transactions.

§ 800.102 Effect on other laws.

Nothing in this part shall be construed to alter or affect any existing power, process, regulation, investigation, enforcement measure, or review provided by any other provision of law.

§ 800.103 Prior acquisitions.

Section 721 and the regulations in this part apply to acquisitions concluded on or after the effective date (as defined in § 800.207), including acquisitions concluded prior to issuance of these regulations. Section 721 and the regulations in this part do not apply to acquisitions concluded prior to the effective date.

§ 800.104 Transactions or devices for avoidance.

Any transaction(s) or other device(s) entered into or employed for the purpose of avoiding section 721 shall be disregarded, and section 721 and these rules shall be applied to the substance of the transaction(s).

Example. Corporation A is organized under the laws of a foreign state and is wholly owned and controlled by a foreign national. With a view towards avoiding possible application of section 721, Corporation A transfers money to a U.S. citizen, who, pursuant to informal arrangements with Corporation A and on its behalf, purchases all the shares in Corporation X, a corporation which is organized under the laws of a state of the United States, and which engages in business activities in the United States. That sham transaction is subject to section 721.

Subpart B—Definitions

§ 800.201 Acquisition.

The term *acquisition* is used in these regulations to refer collectively to an acquisition, merger, or takeover. It includes, without limitation:

- (a) The acquisition of a person by:
 - (1) The purchase of its voting securities,
 - (2) The conversion of its convertible voting securities,
 - (3) The acquisition of its convertible voting securities if that involves the acquisition of control, or
 - (4) The acquisition and the voting of proxies, if that involves the acquisition of control.

(b) The acquisition of a business, including any acquisition of production or research and development facilities operated prior to the acquisition as part of a business, if there will likely be a substantial use of:

- (1) The technology of that business, excluding technical information gen-

erally accompanying the sale of equipment, or

- (2) Personnel previously employed by that business.
- (c) A consolidation.

Example (relating to paragraph (b) of this section). Corporation A, organized under the laws of a foreign state and wholly owned and controlled by a foreign national, acquires, from separate United States nationals, (a) products held in inventory, (b) land, and (c) machinery for export. Corporation A has not acquired a business and has not made an acquisition within the meaning of these regulations.

§ 800.202 Affiliate.

An *affiliate* of an entity, as that term is used in §§ 800.205 and 800.402, is any other entity in the chain of ownership between a parent and that entity.

Example. Corporation P holds 50 percent of the voting securities of Corporations R and S. Corporation R holds 40 percent of the voting securities of Corporation X, and Corporation S holds 50 percent of the voting securities of Corporation Y. Under this definition, Corporation S is an affiliate of Corporation Y. (An entity can be both an affiliate and a parent.) Corporation R is not an affiliate of Corporation S or Y because it is not in the chain of ownership between Corporation P and Corporation Y. Corporation X is also not an affiliate of Corporation Y.

§ 800.203 Committee; Chairman of the Committee.

The term *Committee* means the Committee on Foreign Investment in the United States, as established in Executive Order No. 11858, 40 FR 20263, 3 CFR, 1971–1975 Comp., p. 990, as amended. The Chairman of the Committee is the Secretary of the Treasury.

§ 800.204 Control.

(a) The term *control* means the power, direct or indirect, whether or not exercised, and whether or not exercised or exercisable through the ownership of a majority or a dominant minority of the total outstanding voting securities of an issuer, or by proxy voting, contractual arrangements or other means, to determine, direct or decide matters affecting an entity; in particular, but without limitation, to determine, direct, take, reach or cause decisions regarding:

(1) The sale, lease, mortgage, pledge or other transfer of any or all of the principal assets of the entity, whether or not in the ordinary course of business;

(2) The dissolution of the entity;

(3) The closing and/or relocation of the production or research and development facilities of the entity;

(4) The termination or non-fulfillment of contracts of the entity; or

(5) The amendment of the Articles of Incorporation or constituent agreement of the entity with respect to the matters described at paragraph (a) (1) through (4) of this section.

(b) In examining questions of control in situations where more than one foreign person has an interest in a U.S. person, consideration will be given to factors such as whether the foreign persons are related and/or whether they have commitments to act in concert.

§ 800.205 Conversion.

The term *conversion* means the exercise of a right inherent in the ownership or holding of particular securities to exchange such securities for securities which currently entitle the owner or holder to vote for directors of the issuer or of any affiliate of the issuer.

§ 800.206 Convertible voting security.

The term *convertible voting security* means a security which currently does not entitle its owner or holder to vote for directors of any entity and which is convertible into a voting security. See §§ 800.201 and 800.302(c).

§ 800.207 Effective date.

The term *effective date* means August 23, 1988, the date section 721 became effective.

§ 800.208 Engage in.

The term *engage in*, as used in the phrase *seeks to engage in any merger, acquisition or takeover* in section 721(b), means *seeks to acquire control through*.

[59 FR 27179, May 25, 1994]

§ 800.209 Entity.

The term *entity* means any branch, partnership, associated group, association, estate, trust, corporation, divi-

sion of a corporation, business enterprise, or other organization (whether or not organized under the laws of any State), and any government (including a foreign government, the United States Government, a State or local government, and any agency, corporation, financial institution, or other entity or instrumentality thereof, including a government sponsored agency).

[56 FR 58780, Nov. 21, 1991. Redesignated at 59 FR 27179, May 25, 1994]

§ 800.210 Foreign government.

The term *foreign government* means any government or body exercising governmental functions, other than the government of the United States, a State of the United States, or a political subdivision of the United States or a State. The term includes but is not limited to national, state, provincial and municipal governments, including their respective departments, agencies, government-owned enterprises and other agencies and instrumentalities.

[59 FR 27179, May 25, 1994]

§ 800.211 Foreign interest.

The term *foreign interest* means any foreign person, including a foreign government.

[56 FR 58780, Nov. 21, 1991. Redesignated at 59 FR 27179, May 25, 1994]

§ 800.212 Foreign national.

The term *foreign national* means any natural person other than a United States national.

[56 FR 58780, Nov. 21, 1991. Redesignated at 59 FR 27179, May 25, 1994]

§ 800.213 Foreign person.

The term *foreign person* means

(a) Any foreign national or

(b) Any entity over which control is exercised or exercisable by a foreign interest.

Example 1. Corporation A is organized under the laws of a foreign state and is engaged in business outside the United States. All its shares are held by Corporation X, which controls Corporation A. Corporation X is organized in the United States, and is wholly owned and controlled by U.S. nationals. Corporation A, although organized and operating outside the U.S., is not a "foreign

§ 800.214

person," and its acquisition of a U.S. person would not be subject to section 721.

Example 2. Same facts as in the first two sentences of Example 1, except that Country A through governmental intervenors exercises full decision-making power over Corporation A, including the decisions described in § 800.204 (a) through (e). There is a foreign interest which is exercising control over Corporation A, which is a "foreign person."

Example 3. Corporation A is organized under the laws of a foreign state and is owned and controlled by a foreign national. Through a branch, Corporation A engages in business in the United States. Corporation A and/or its branch is a "foreign person" should Corporation A make an acquisition. Its branch business in the United States is also a "U.S. person" which may be the subject of an acquisition.

[56 FR 58780, Nov. 21, 1991. Redesignated at 59 FR 27179, May 25, 1994]

§ 800.214 Hold.

The terms *hold(s)* and *holding* mean legal or beneficial ownership, whether direct or indirect, through fiduciaries, agents or other means.

[56 FR 58780, Nov. 21, 1991. Redesignated at 59 FR 27179, May 25, 1994]

§ 800.215 Parent.

The term *parent*, as used in §§ 800.302 and 800.402, means a person who or which, directly or indirectly,

(a) Holds or will hold 50 percent or more of the outstanding voting securities of an entity; or

(b) In case of an entity that has no outstanding voting securities, holds or will hold the right to 50 percent or more of the profits of the entity, or has or will have the right in the event of the dissolution to 50 percent or more of the assets of the entity.

Example. Corporation P holds 50 percent of the voting securities of Corporations R and S. Corporation R holds 40 percent of the voting securities of Corporation X, and Corporation S holds 50 percent of the voting securities of Corporation Y. Corporation P is a parent of Corporations R, S and Y, but not of Corporation X. Corporation S is a parent of Corporation Y because it holds 50 percent of the voting securities of Corporation Y.

[56 FR 58780, Nov. 21, 1991. Redesignated at 59 FR 27179, May 25, 1994]

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§ 800.216 A party or parties to an acquisition.

The terms *party to an acquisition* and *parties to an acquisition* mean:

(a) In the case of an acquisition of a person by the purchase of its voting securities, the person acquiring the voting securities, and the person issuing those voting securities;

(b) In the case of a merger, the surviving person, and the person or persons that lose its or their separate pre-merger identity;

(c) In the case of an acquisition of an entity or a business of an entity, the person acquiring or seeking to acquire that entity or business, and the person selling that entity or business;

(d) In the case of a consolidation, the entities being consolidated, and the new consolidated entity;

(e) In the case of a proxy solicitation, the person soliciting proxies, and the person who issued the voting securities.

[56 FR 58780, Nov. 21, 1991. Redesignated at 59 FR 27179, May 25, 1994]

§ 800.217 Person.

The term *person* means any natural person or entity.

[56 FR 58780, Nov. 21, 1991. Redesignated at 59 FR 27179, May 25, 1994]

§ 800.218 Section 721.

The term *Section 721* means section 721 of title VII of the Defense Production Act of 1950, 50 U.S.C. App. 2171, as added by section 5021 of the Omnibus Trade and Competitiveness Act of 1988, Public Law 100-418, 102 Stat. 1107.

[56 FR 58780, Nov. 21, 1991. Redesignated at 59 FR 27179, May 25, 1994]

§ 800.219 Solely for the purpose of investment.

(a) Voting securities are held or acquired "solely for the purpose of investment" if the person holding or acquiring such voting securities has no intention of determining or directing the basic business decisions of the issuer, including those at § 800.204(a) (1) through (5).

(b) Voting securities are not held solely for the purpose of investment if the person holding or acquiring such voting securities:

(1) Possesses or develops any purpose other than investment, or

(2) Takes any action inconsistent with acquiring or holding such securities solely for the purpose of investment.

[56 FR 58780, Nov. 21, 1991. Redesignated at 59 FR 27179, May 25, 1994]

§ 800.220 United States.

The term *United States* means the United States of America, the States of the United States, the District of Columbia, and any commonwealth, territory, dependency, or possession of the United States, and includes the Outer Continental Shelf, as defined in section 2(a) of the Outer Continental Shelf Lands Act (43 U.S.C. 1131 (a)). For purposes of these regulations and their examples, an entity organized under the laws of the United States of America, one of the States, the District of Columbia, or a commonwealth, territory, dependency or possession of the United States, is an entity organized "in the United States."

[56 FR 58780, Nov. 21, 1991. Redesignated at 59 FR 27179, May 25, 1994]

§ 800.221 United States national.

The term *United States national* or *U.S. national* means a citizen of the United States or a natural person who, although not a citizen of the United States, owes permanent allegiance to the United States.

[56 FR 58780, Nov. 21, 1991. Redesignated at 59 FR 27179, May 25, 1994]

§ 800.222 United States person.

The term *U.S. person* or *United States person* means any natural person or entity but, in the case of the latter, only to the extent of its business activities in interstate commerce in the United States, irrespective of the nationality of the natural persons or entities which control it.

Example 1. Corporation A is organized under the laws of a foreign state and is wholly owned and controlled by a foreign national. It engages in business activities in a state of the U.S. through a branch office or subsidiary. That branch office or subsidiary of Corporation A is an "entity" and a "U.S. person." The branch office or subsidiary is also a foreign person under § 800.213.

Example 2. Same facts as in the first sentence of Example 1. Corporation A, however, does not have a branch office, subsidiary or fixed place of business in the United States. It exports and licenses technology to an unrelated company in the United States. Corporation A is not a "U.S. person."

Example 3. Corporation A is organized under the laws of a foreign state and is wholly owned and controlled by Corporation X. Corporation X is organized in the United States and is wholly owned and controlled by U.S. nationals. Corporation A does not have a branch office, subsidiary, or fixed place of business in the United States. It exports goods to Corporation X and to unrelated companies in the United States. The sale of Corporation A by Corporation X to a foreign person would not constitute an acquisition of a U.S. person for purposes of section 721.

[56 FR 58780, Nov. 21, 1991. Redesignated and amended at 59 FR 27179, May 25, 1994]

§ 800.223 Voting securities.

The term *voting securities* means any securities which at present or upon conversion entitle the owner or holder thereof to vote for the election of directors of the issuer, or, with respect to unincorporated entities, individuals exercising similar functions.

[56 FR 58780, Nov. 21, 1991. Redesignated at 59 FR 27179, May 25, 1994]

Subpart C—Coverage

§ 800.301 Transactions that are acquisitions under section 721.

(a) Section 721 applies to acquisitions:

(1) Proposed or pending on or after the effective date

(2) By or with foreign persons

(3) Which could result in foreign control of persons engaged in interstate commerce in the United States.

(b) Transactions that are acquisitions under section 721 include, without limitation:

(1) Proposed or completed acquisitions by or with foreign persons which could or did result in foreign control of a U.S. person, irrespective of the actual arrangements for control planned or in place for that particular acquisition.

Example 1. Corporation A, a foreign person, proposes to purchase all the shares in Corporation X, which is organized in the United States and engages in interstate commerce in the United States.

Under the applicable law, Corporation A will have the right to elect directors and appoint other primary officers of Corporation X, and those directors will have the right to reach decisions about the closing and relocation of particular production facilities, and the termination of contracts. They also will have the right to propose (for approval by Corporation A as a shareholder) the dissolution of Corporation X and the sale of its principal assets.

For purposes of section 721, the proposed acquisition of Corporation X by Corporation A would result in control of a U.S. person (Corporation X) by a foreign person (Corporation A).

Example 2. Same facts as in Example 1, except that Corporation A plans to retain the existing directors of Corporation X, all of whom are U.S. nationals.

Although, under these plans, Corporation A may not in fact exercise control over Corporation X (because the directors as U.S. nationals may exercise that control), the acquisition of Corporation X by Corporation A still would result in foreign control over a U.S. person for purposes of section 721.

(2) A proposed acquisition by or with a foreign person, which could result in foreign control of a U.S. person, including, without limitation, an offer to purchase all or a substantial portion of the securities of a U.S. person.

Example. Corporation A, a foreign person makes an offer to purchase all the shares in Corporation X, a U.S. person. That acquisition is "proposed" and subject to section 721.

(3) Proposed or completed acquisitions, even by entities organized in the United States, if those entities are "foreign persons," and if those acquisitions could or did result in a different foreign interest controlling the U.S. person to be acquired.

Example 1. Corporation X is organized and operates in the United States. Its shares are held by a foreign person. While Corporation X is a "U.S. person," it is also a "foreign person" within the meaning of section 721, because control over it is or could be exercised by a foreign person. Its acquisition of a U.S. person is subject to section 721 because that acquisition could result in control by Corporation X (a "foreign person") of a U.S. person.

Example 2. Same facts as Example 1, except that Corporation Y, a foreign person, seeks to acquire Corporation X from its existing shareholder. That proposed acquisition is subject to section 721 because it could result in control of Corporation X (in this context a "U.S. person") by a different foreign person (Corporation Y).

(4) Proposed or completed acquisitions by or with foreign persons which involve acquisitions of businesses and could or did result in foreign control of businesses located in the United States.

Example 1. Corporation A, a foreign person, proposes to buy a branch office business in the United States of Corporation X, which is a foreign person. For purposes of these regulations, the branch office business of Corporation X is a United States person to the extent of its business activities in the U.S., and the proposed acquisition of the business in question is subject to section 721.

Example 2. Corporation A, a foreign person, buys a branch office business located entirely outside the United States of Corporation Y, which is incorporated in the United States. The branch office business of Corporation Y is not deemed to be a United States person, and the acquisition is not subject to section 721.

Example 3. Corporation A, a foreign person, makes a start-up or "greenfield" investment in the United States. That investment involves such activities as separately arranging for the financing of and the construction of a plant to make a new product, buying supplies and inputs, hiring personnel, and purchasing the necessary technology. The investment may involve the acquisition of shares in a newly incorporated subsidiary. Corporation A will not have acquired the "business" of a U.S. person, and its greenfield investment is not subject to section 721.

(5) Joint ventures in which a United States person and a foreign person enter into contractual or other similar arrangements, including agreements on the establishment of a new entity, but only if a United States person contributes an existing identifiable business in the United States and a foreign interest would gain control over that existing business by means of the joint venture.

Example 1. Corporation A, a foreign person, and Corporation X, a United States person, form a separate corporation, JV Corp., to which Corporation X contributes an identifiable business in the United States. There is no foreign interest which does or could exercise control over Corporation X. Under the Articles of Incorporation of JV Corp., Corp. A through its shareholding in JV Corp. may elect a majority of the Board of Directors of JV Corp. The formation of JV Corp. could result in foreign control of a U.S. person and is an acquisition subject to section 721.

Example 2. Same facts as in Example 1, except that Corporations A and X each own 50 percent of the shares of JV Corp. and, under

the Articles of Incorporation of JV Corp. both A and X have veto power over all decisions by JV Corp. identified under § 800.204(a) (1) through (5). The formation of JV Corp. is not an acquisition subject to section 721.

Example 3. Corporation A, a foreign person, and Corporation X, a United States person, form a separate corporation, JV Corp., to which Corporation A contributes funding and managerial and technical personnel, while Corporation X contributes certain patents and equipment that do not under these circumstances constitute an identifiable business. The formation of JV Corp. is not an acquisition subject to section 721.

[56 FR 58780, Nov. 21, 1991, as amended at 59 FR 27179, May 25, 1994]

§ 800.302 Transactions that are not acquisitions under section 721.

The following transactions are not considered acquisitions for purposes of section 721:

(a) An acquisition of voting securities pursuant to a stock split or pro rata stock dividend which does not involve a change in control.

(b) An acquisition in which the parent of the entity making the acquisition is the same as the parent of the entity being acquired.

Example. Corporation A, a foreign person, merges its two wholly owned U.S. subsidiaries S1 and S2, and in addition creates a new U.S. subsidiary, S3. S3 then buys a business from S4, another wholly-owned U.S. subsidiary of Corporation A. These acquisitions are not subject to section 721.

(c) An acquisition of convertible voting securities that does not involve control.

Example. Corporation A, a foreign person, buys debentures, options and warrants of Corporation X, a U.S. person. By their terms, the debentures are convertible into common stock, and the options and warrants can be exercised for common stock. The acquisition of those debentures, options and warrants is not subject to section 721 so long as it does not involve control. The conversion of those debentures into common stock, or the exchange of those options and warrants for common stock, may be an acquisition for purposes of section 721. See § 800.201.

(d) A purchase of voting securities or comparable interests in a United States person solely for the purpose of investment, as defined in § 800.219, if, as a result of the acquisition,

(1) The foreign person would hold ten percent or less of the outstanding vot-

ing securities of the U.S. person, regardless of the dollar value of the voting securities so acquired or held, or

(2) The purchase is made directly by a bank, trust company, insurance company, investment company, pension fund, employee benefit plan, mutual fund, finance company or brokerage company in the ordinary course of business for its own account, provided that a significant portion of that business does not involve the acquisition of entities.

Example 1. In an open market purchase solely for the purpose of investment, Corporation A, a foreign person, acquires 7 percent of the voting securities of Corporation X, which is incorporated under the laws of the United States. The acquisition of those securities is not subject to section 721.

Example 2. Same facts as Example 1 except Corporation A is an investment company which makes only portfolio investments. It purchases 14 percent of the voting securities of Corporation X for its own account, solely for the purpose of investment. The acquisition of those securities is not subject to section 721.

Example 3. Same facts as Example 2 except that a significant portion of the business of Corporation A is acquiring control over corporations. Its purchase of 14 percent of the shares of Corporation X is subject to section 721.

(e) An acquisition of assets in the United States that does not constitute a business in the United States. See §§ 800.201 and 800.301(b)(4).

Example 1. Corporation A, a foreign person, acquires, from separate United States nationals, (a) products held in inventory, (b) land, and (c) machinery for export. Corporation A has not acquired a "business" within the meaning of section 721.

Example 2. Corporation X produces armored personnel carriers in the United States. Corporation A, a foreign person, seeks to acquire the annual production of those carriers from Corporation X under a long-term contract. Neither the proposed acquisition of those carriers, nor the actual acquisition, is subject to section 721.

Example 3. Same facts as Example 2, except that Corporation X, a U.S. person, has developed important technology in connection with the production of armored personnel carriers. Corporation A seeks to negotiate an agreement under which it would be licensed to manufacture using that technology. Neither the proposed acquisition of technology pursuant to that license agreement, nor the actual acquisition, is subject to section 721.

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Example 4. Same facts as Example 2, except that Corporation A enters into a contractual arrangement to acquire the entire armored personnel carrier business of Corporation X, including production facilities, customer lists, technology and staff. This acquisition is subject to section 721. See § 800.201.

(f) An acquisition of securities by a person acting as a securities underwriter, in the ordinary course of business, and in the process of underwriting.

(g) An acquisition pursuant to a condition in a contract of insurance relating to fidelity, surety, or casualty obligations if the contract was made by an insurer in the ordinary course of business.

(h) An acquisition of a security interest, but not control, in the voting securities or assets of a U.S. person at the time a loan or other financing is extended (see § 800.303).

(i) An acquisition of voting securities or assets that does not involve an acquisition of control of a person engaged in interstate commerce in the United States.

Example 1. Corporation A, which is organized under the laws of a foreign state and is controlled by foreign persons, advises the Committee that it intends to acquire seven percent of the voting securities of Corporation X, which is organized under the laws of the United States and engaged in interstate commerce within the United States. In this particular case, Corporation A's purchase of this interest in Corporation X would not be sufficient to permit Corporation A to control Corporation X for purposes of § 800.204. This transaction is not an acquisition for purposes of section 721.

Example 2. Corporation A, which is organized under the laws of a foreign state and controlled by foreign persons, acquires from Corporation B 100 percent of the voting securities of Corporation X, a wholly-owned subsidiary of Corporation B that is organized under the laws of the United States. Corporation X currently has no employees, plants, equipment or subsidiaries in the United States. Corporation B maintains records in the United States on behalf of Corporation X and uses U.S. mail and telecommunications facilities on its behalf. For purposes of section 721, Corporation X is not engaged in interstate commerce in the United States, and the acquisition by Corporation A of securities of Corporation X is

not an acquisition for purposes of section 721.

[56 FR 58780, Nov. 21, 1991, as amended at 59 FR 27179, May 25, 1994]

§ 800.303 Lending transactions.

(a) The extension of a loan or similar financing by a foreign person to a U.S. person, accompanied by the creation in the foreign person of a secured interest in securities or other assets of the U.S. person, does not, by itself, subject the transaction to section 721. However, if control is acquired by the foreign person at the time the loan or other financing is extended, then the transaction may be subject to section 721.

(1) The Committee will not, at the time of extension of the loan or other financing, accept notices from parties to a loan or other financing transaction in which control is not acquired by the foreign person at that time.

(2) The Committee will accept notices concerning transactions that involve loans or financing by foreign persons where, because of imminent or actual default or other condition, there is a significant possibility that the foreign person may obtain control of the U.S. person.

(3) For purposes of this section, in determining whether an acquisition of a U.S. person by a foreign person results in foreign control under section 721, the Committee will take into account arrangements which the foreign person might establish to transfer day-to-day control over the U.S. person to U.S. nationals.

(b) Control will not be deemed to be acquired for purposes of section 721 in cases involving an acquisition of voting securities or assets of a U.S. person by a foreign person upon default, or other condition, involving a loan or other financing, provided that the loan was made by a syndicate of banks in a loan participation where the foreign lender (or lenders) in the syndicate:

(1) Needs the majority consent of the U.S. participants in the syndicate to take action, and cannot on its own initiate any action vis-a-vis the debtor; or

(2) Does not have a lead role in the syndicate, and is subject to a provision in the loan or financing documents limiting its influence, ownership or control of the debtor such that control

for purposes of § 800.204 could not be acquired.

Subpart D—Notice

§ 800.401 Procedures for notice.

(a) A party or the parties to an acquisition subject to section 721 may submit a voluntary notice to the Committee of the proposed or completed acquisition by sending thirteen copies of the information set out in § 800.402 to the Staff Chairman of the Committee on Foreign Investment in the United States (hereinafter “Staff Chairman”), Office of International Investment, room 5100, Department of the Treasury, 15th Street and Pennsylvania Avenue, NW., Washington, DC 20220.

(b) Any member of the Committee may submit an agency notice of a proposed or completed acquisition to the Committee through its Staff Chairman if that member has reason to believe, based on facts then available, that the acquisition is subject to section 721 and may have adverse impacts on the national security. In the event of agency notice, the Committee will promptly furnish the parties to the acquisition with written advice of such notice.

(c) No agency notice, or review or investigation by the Committee, shall be made with respect to a transaction more than three years after the date of conclusion of the transaction, unless the Chairman of the Committee, in consultation with other members of the Committee, requests an investigation.

(d) No communications other than those described in paragraphs (a) and (b), and (c) of this section shall constitute notice for purposes of section 721.

[56 FR 58780, Nov. 21, 1991, as amended at 59 FR 27179, May 25, 1994]

§ 800.402 Contents of voluntary notice.

(a) If the parties to an acquisition jointly submit a voluntary notice, they shall provide in detail the information set out in this section, which must be accurate and complete with respect to all parties. All parties shall sign a joint notice.

(b) If fewer than all the parties to an acquisition submit a voluntary notice:

(1) Each notifying party shall provide the information set out in this section with respect to itself and, to the extent known or reasonably available to it, with respect to each non-notifying party.

(2) The Staff Chairman may delay acceptance of the notice, and the beginning of the thirty-day review period, in order to obtain any information set forth under this section that has not been submitted by the notifying party. Where necessary to obtain such information, the Staff Chairman may inform the non-notifying party or parties that notice has been initiated with respect to a proposed transaction involving the party, and request that certain information set forth in this section, as specified by the Staff Chairman, be forwarded to the Committee within seven days after such request by the Staff Chairman.

(c) A voluntary notice submitted pursuant to § 800.401(a) shall describe:

(1) The transaction in question, including

(i) A summary setting forth the essentials of the transaction;

(ii) The nature of the transaction, *e.g.*, whether the acquisition is by merger, consolidation, the purchase of voting securities, or otherwise;

(iii) The name, United States address (if any), and address of the principal place of business of the foreign person making the acquisition;

(iv) The name and address of the U.S. person being acquired;

(v) The name, address and nationality of the parent, if any, of the foreign person making the acquisition, and of each affiliate of that person;

(vi) The name, address and nationality of the persons or interests that will control the U.S. person being acquired; and

(vii) The expected date for concluding the transaction, or the date it was concluded.

(2) The assets of the U.S. person being acquired (to be described only for an acquisition of an entity structured as an acquisition of assets or a business).

(3) With respect to the U.S. person being acquired, and any entity of which it is a parent that is also being acquired:

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(i) The business activities of each of them, as, for example, set forth in annual reports, and the product lines of each;

(ii) The street address (or mailing address, if different) within the United States of the facilities of each of them, which are manufacturing classified or unclassified products or producing services described in subparagraph (v) below, and their respective Commercial and Government Entity Code (CAGE Code), if any, assigned by the Department of Defense;

(iii) Except as may be identified in paragraph (c)(3)(iv) of this section, each contract (identified by agency and number), which is currently in effect, or was in effect within the past three years, with an agency of the Government of the United States with national defense responsibilities, including any component of the Department of Defense, and the name, office, and telephone number of the contracting official;

(iv) Each contract (identified by agency and number), which is currently in effect or was in effect within the past five years, with any agency of the Government of the United States involving any information, technology or data, which is classified under Executive Order 12356 of April 2, 1982, and the name, office, and telephone number of the contracting official;

(v) Any products or services (including research and development) of each of them with respect to which

(A) It is a supplier, for example, a prime contractor, or a first tier subcontractor, or, if known, a subcontractor at any tier, to the Department of Defense or any component of the Department of Defense, or a seller to any such prime contractor or subcontractor, and, to the knowledge of the parties submitting notice, to what extent the U.S. person is a sole-source supplier to the Department of Defense for a particular product or service;

(B) It has technology which has military applications.

(4) Whether the U.S. person being acquired produces:

(i) Products or technical data subject to validated licenses or under General License GTDR pursuant to the U.S. Export Administration Regulations (15

CFR parts 768-799); if applicable, the relevant Commodity Control List number shall be provided and the technical data shall be described; and

(ii) Defense articles and defense services under the International Traffic in Arms Regulations (22 CFR subchapter M).

(5) With respect to the foreign person:

(i) The business or businesses of the foreign person making the acquisition, and of its parent and any affiliates, as described, for example, in annual reports. Provide CAGE codes, if any, for such facilities;

(ii) The plans of the foreign person for the U.S. person with respect to:

(A) Reducing, eliminating or selling research and development facilities,

(B) Changing product quality,

(C) Shutting down or moving offshore facilities which are within the United States,

(D) Consolidating or selling product lines or technology, or

(E) Modifying or terminating contracts referred to in paragraphs (c)(3)(iii) and (iv) of this section for defense-related goods or services or for goods and services otherwise affecting national security;

(iii) Whether the foreign person is acting on behalf of a foreign government, for example, as an agent or a representative, or in some similar capacity; and

(iv) Whether a foreign government or an entity controlled by a foreign government—

(A) Has the power or right to determine, direct, take, reach or cause decisions of the acquirer with respect to any of the matters listed in §800.204, and, if so, the source of that power or right (e.g., shareholders agreement, contract, statute, regulation) and the mechanics of its operation;

(B) Owns or controls voting or convertible securities of the acquiring foreign person or any affiliate of the acquiring foreign person, and if so, the nature and percentage amount of any such securities;

(C) Has the right or power to appoint any of the principal officers or the members of the board of directors of

the acquiring foreign person or any affiliate of the acquiring foreign person; or

(D) Holds any contingent interest (e.g., such as might arise from a lending transaction) in the foreign acquiring party and, if so, the rights that are covered by this contingent interest, and the manner in which they would be enforced.

(d) The voluntary notice shall list any filings with or reports to agencies of the United States Government which have been or will be made in respect of the acquisition prior to its closing indicating the agencies concerned, the nature of the filing or report, the date by which it was filed or the estimated date by which it will be filed, and a relevant telephone number and/or contact point within the agency, if known.

Example. Corporation A, a foreign person, intends to acquire Corporation X, which is wholly owned and controlled by a U.S. national, and which has a Facility Security Clearance under the Department of Defense Industrial Security Program. See Department of Defense, "Industrial Security Regulation," DOD 5220.22-R, and "Industrial Security Manual for Safeguarding Classified Information," DOD 5220.22-M. Corporation X accordingly files a revised Form DD 441s, and enters into discussions with the Defense Investigative Service about effectively insulating its facilities from the foreign interest.

Paragraph (d) requires that certain specific information about these steps be reported to the Committee in a voluntary notice.

(e) In the case of a joint venture subject to section 721, information for the voluntary notice shall be prepared on the assumption that the foreign person which is party to the joint venture has made an acquisition of the business or businesses that the U.S. person which is a party to the joint venture is contributing or transferring to the joint venture. In addition, the voluntary notice shall describe the name and address of the joint venture or other corporation.

(f) In the case of acquisitions of some but not all of the businesses or assets of a U.S. person, §800.402(c) only requires submission of the specified information with respect to the business or assets that have been or are proposed to be acquired.

(g) Persons filing a voluntary notice shall, in respect of the foreign person making the acquisition, its parent and affiliates, the U.S. person being acquired, and each entity of which it is a parent, append to the voluntary notice the most recent annual report of each such entity, if available. Separate reports are not required for any entity whose financial results are included within the consolidated financial results stated in the annual report of any direct or indirect parent of any such entity.

(h) Persons filing a voluntary notice shall, during the time that the matter is pending before the Committee or the President, promptly advise the Staff Chairman of any material changes in plans or information provided to the Committee. See also §800.701(a).

(i) Persons filing a voluntary notice shall include a copy of the most recent asset or stock purchase agreement or other document establishing the terms of the acquisition.

[56 FR 58780, Nov. 21, 1991, as amended at 59 FR 27179, May 25, 1994]

§800.403 Treatment of certain voluntary notices.

The Committee, acting through the Staff Chairman, may

(a) Reject voluntary notices not complying with §800.402;

(b) Delay the beginning of the thirty-day review period until information specified in §800.402 has been furnished to the Committee;

(c) Reject any voluntary notice at any time if, after the notice has been submitted and before action by the Committee or the President has been concluded, there is a material change in the transaction as to which notification has been made; and

(d) Notify the party submitting a voluntary notice that an analysis of national security considerations will not be undertaken in cases where the Committee has found that a transaction presented is not subject to section 721.

Example 1. The Staff Chairman receives a joint filing by Corporation A, a foreign person, and Corporation X, a company that is owned and controlled by U.S. nationals, with respect to Corporation A's intent to purchase all of the shares of Corporation X. The joint filing does not contain any information

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described under § 800.402(c)(3) (iv) and (v) concerning classified materials and products or services supplied to the U.S. military services. The Staff Chairman may (1) reject the filing, or (2) delay the start of the thirty-day review period while the parties are asked to supply the omitted information.

Example 2. Same facts as in first sentence of Example 1, except that the joint filing indicates that Corporation A does not intend to purchase Corporation X's Division Y, which is engaged in classified work for a U.S. Government agency. Corporations A and X notify the Committee on the 25th day of the 30-day notice period that Division Y will also be acquired by Corporation A. This fact constitutes a material change with respect to the transaction as originally notified, and the Staff Chairman may reject the notice.

Example 3. The Staff Chairman receives a joint filing by Corporation A, a foreign person, and Corporation X, a company that is owned and controlled by U.S. nationals, indicating that Corporation A intends to purchase 10.5 percent of the voting securities of Corporation X. Under the particular facts and circumstances presented, the Committee concluded that Corporation A's purchase of this interest in Corporation X would not constitute control as defined in § 800.204. The Staff Chairman may advise the parties in writing that the transaction as presented is not subject to section 721 and that no analysis of national security considerations has been undertaken.

§ 800.404 Beginning of thirty-day review period.

(a) A thirty-day period for review of the acquisition shall be deemed to commence on the next calendar day after voluntary notice has been accepted, agency notice has been received by the Staff Chairman of the Committee, or the Chairman of the Committee has requested an investigation pursuant to § 800.401. Such review shall end no later than the thirtieth day after it has commenced, or if the thirtieth day is not a business day, no later than the next business day after the thirtieth day.

(b) Within two business days after its receipt by the Staff Chairman, the Staff Chairman of the Committee shall send written advice of an agency notice to the parties to an acquisition.

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Subpart E—Committee Procedures: Review and Investigation

§ 800.501 General.

(a) The Committee's review or investigation (if it has been determined that an investigation shall be conducted) shall examine, as appropriate, whether:

(1) The acquisition is by or with a foreign person and could result in control by a foreign person of a U.S. person or persons engaged in interstate commerce in the United States;

(2) There is credible evidence to support a belief that the foreign interest exercising control of the U.S. person to be acquired might take action that threatens to impair the national security; and

(3) Provisions of law, other than section 721 and the International Emergency Economic Powers Act (50 U.S.C. 1701-1706), provide adequate and appropriate authority to protect the national security.

(b) During the thirty-day review period or during an investigation, the Staff Chairman may invite the parties to a notified transaction to attend a meeting with the Committee staff to discuss and clarify issues pertaining to the transaction. During an investigation, a party to the investigated transaction may request a meeting with the Committee staff; such a request ordinarily will be granted.

§ 800.502 Determination not to investigate.

(a) If the Committee determines, during the review period described in § 800.404, not to undertake an investigation, such determination shall conclude action under section 721.

(b) The Staff Chairman of the Committee shall promptly advise the parties to an acquisition of a determination not to investigate.

§ 800.503 Commencement of investigation.

(a) If it is determined that an investigation should be undertaken, such investigation shall commence no later

than the end of the thirty-day period described in § 800.404.

(b) The Staff Chairman of the Committee shall promptly send written advice to the parties to an acquisition of the commencement of an investigation.

§ 800.504 Completion or termination of investigation and report to the President.

(a) The Committee shall complete its investigation no later than the forty-fifth day after the date the investigation commences, or, if the forty-fifth day is not a business day, no later than the next business day after the forty-fifth day.

(b) Upon completion or termination of any investigation, the Committee shall report to the President and present a recommendation. Any such report shall include information relevant to subparagraphs (e) (1) and (2) of section 721. If the Committee is unable to reach a unanimous recommendation, the Chairman shall submit a report of the Committee to the President setting forth the differing views and presenting the issues for decision.

[56 FR 58780, Nov. 21, 1991, as amended at 59 FR 27179, May 25, 1994]

§ 800.505 Withdrawal of notice.

(a) A party to an acquisition that has submitted notice under § 800.401(a), or, if more than one such party has submitted notice, the parties to an acquisition, may, at any time prior to an announcement by the President of his decision as described in § 800.601, request in writing that such notice(s) be withdrawn. Such request shall be directed to the Staff Chairman and shall state the reasons why the request is being made. Such requests will ordinarily be granted, except as determined by the Committee. A written notification of the decision on the request to withdraw notice shall be sent promptly to the requester(s).

(b) Any withdrawal in writing of an agency notice by the agency that submitted it shall be effective on its receipt by the Staff Chairman, who shall promptly send notice of the withdrawal to the parties to an acquisition.

(c) In any case where a request to withdraw notice is granted under para-

graph (a), or where the withdrawal is effective under paragraph (b) of this section, or where notice has been rejected under § 800.403, such notice shall be considered not to have been made for purposes of § 800.401. Section 800.702 shall nevertheless apply with respect to information or documentary material filed with the Committee. With respect to any subsequent acquisition among the parties that is within this part, notice made in accordance with § 800.401 shall be deemed a new notice for purposes of these regulations, including § 800.601.

Subpart F—Presidential Action

§ 800.601 Statutory time frame, standards for Presidential action, and permissible actions under section 721.

(a) The President shall announce his decision to take action pursuant to section 721 no later than the fifteenth day after an investigation is completed, or, if the fifteenth day is not a business day, no later than the next business day following the fifteenth day.

(b) The President may exercise the authority conferred by section 721(d) if the President makes the findings required by section 721(e), namely, that—

(1) There is credible evidence that leads the President to believe that the foreign interest exercising control might take action that threatens to impair the national security, and

(2) Provisions of law, other than section 721 and the International Emergency Economic Powers Act (50 U.S.C. 1701-1706), do not in the President's judgment provide adequate and appropriate authority for the President to protect the national security in the matter before the President.

The President's findings under section 721(d) shall not be subject to judicial review.

(c) Under section 721 (d) and (e), the President:

(1) Is empowered to take such action for such time as the President considers appropriate to suspend or prohibit any acquisition subject to section 721 that is the subject of a recommendation or recommendations by the Committee; and

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(2) Is empowered to direct the Attorney General to seek appropriate relief, including divestment relief, in the district courts of the United States in order to implement and enforce section 721.

(d) All authority available to the President under section 721(d), including divestment authority, shall remain available at the discretion of the President in respect of acquisitions which have been concluded at any time on or after the effective date, but only if the purpose for which divestment or other appropriate relief is sought is based on facts, conditions, or circumstances existing at the time the transaction was concluded. Such authority shall not be exercised if:

(1) The Committee, through its Staff Chairman, has in writing advised a party (or the parties) that a particular transaction, with respect to which voluntary notice was attempted, was not subject to section 721;

(2) The Committee has previously determined under § 800.502 not to undertake an investigation of the acquisition when proposed, pending, or completed; or

(3) The President has previously determined not to exercise his authority under section 721 with respect to that acquisition.

(e) Notwithstanding any other provision in these regulations, in any case where the parties to an acquisition submitted false or misleading material information to the Committee, or omitted material information, including relevant information that was supplied in response to provisions of § 800.402; that was requested specifically by the Committee in the course of review, investigation, or Presidential determination; or that was actually provided by a party, in addition to such other penalties as may be provided by law,

(1) The Committee may reopen its review or investigation of the transaction, and revise any recommendation or recommendations submitted to the President;

(2) Any Committee member may submit or resubmit an agency notice under § 800.401, to begin anew the process of review and investigation; and/or

(3) The President may take such action for such time as the President deems appropriate in respect of the acquisition, and may revise actions earlier taken.

(f) The Committee will generally not consider as material minor inaccuracies, omissions, or changes relating to financial or commercial factors not having a bearing on national security.

Example 1. Corporation A, a foreign person, states in its joint filing with Corporation X, a U.S.-controlled person, that Corporation A will acquire all of the shares of Corporation X at \$100 per share on July 31, 1991. For commercial reasons, the acquisition in fact takes place on August 31 of the same year, and the actual price paid per share is \$150. The Committee would not regard these factors alone as reason to set aside a prior decision by the Committee not to investigate the proposed transaction.

Example 2. Same facts as stated in sentence one of Example 1, except that the joint filing of Corporations A and X also states, in responding to § 800.402(b)(3)(iv), that Corporation X has no contracts involving classified information. In fact, Corporation X has classified contracts with the Department of Defense. The statement would be considered false and could lead to action by the Committee under paragraph (e) of this section.

(g) Divestment or other relief under section 721 shall not be available with respect to transactions that were concluded prior to the effective date.

[56 FR 58780, Nov. 21, 1991, as amended at 59 FR 27180, May 25, 1994]

Subpart G—Provision and Handling of Information

§ 800.701 Obligation of parties to provide information.

(a) Parties to a transaction which is notified under subpart D shall provide information to the Staff Chairman of the Committee that will enable the Committee to conduct a full review and/or investigation of the proposed transaction, and shall promptly advise the Staff Chairman of any changes in plans or information pursuant to § 800.402(h). See, generally, 50 U.S.C. app. 2155(a) for authorities available to the Committee for obtaining information.

(b) Documentary materials or information required or requested to be submitted under this part shall be submitted in English. Supplementary materials, such as annual reports, written in a foreign language, shall be submitted in certified English translation, at the request of the Committee.

§ 800.702 Confidentiality.

(a) Section 721(c) provides that any information or documentary material filed with the Committee pursuant to these regulations shall be exempt from disclosure under section 552 of title 5, United States Code, and no such information or documentary material may be made public, except as may be relevant to any administrative or judicial action or proceeding. Nothing in section 721 shall be construed to prevent disclosure to either House of Congress or to any duly authorized committee or subcommittee of the Congress.

(b) The provisions of 50 U.S.C. app. 2155(e) relating to fines and imprisonment shall apply in respect of disclosure of information or documentary material filed with the Committee under these regulations.

[56 FR 58780, Nov. 21, 1991, as amended at 59 FR 27180, May 25, 1994]

APPENDIX A TO PART 800—PREAMBLE TO REGULATIONS ON MERGERS, ACQUISITIONS, AND TAKEOVERS BY FOREIGN PERSONS (PUBLISHED NOVEMBER 21, 1991)

NOTE: For the convenience of the reader, this appendix contains the text of the preamble to the final regulations on mergers, acquisitions and takeovers by foreign persons beginning at the heading "Discussion of Final Rule" and ending before "List of Subjects in 31 CFR Part 800" (56 FR 58780; November 21, 1991). Certain sections of the regulations were renumbered in a final rule published on May 25, 1994, and those number changes are reflected in the "Section-by-Section Discussion of Changes" in this appendix. (See appendix B of this part for the preamble of the May 25, 1994, final rule.)

DISCUSSION OF FINAL RULE

I. Introduction

On July 14, 1989, the Department of the Treasury published proposed Regulations Pertaining to Mergers, Acquisitions and Takeovers by Foreign Persons. The purpose of the proposed regulations was to imple-

ment section 721 (hereinafter referred to as "section 721") of title VII of the Defense Production Act of 1950, as added section 5021 of the Omnibus Trade and Competitiveness Act of 1988 (Pub. L. 100-418), relating to mergers, acquisitions, and takeovers of U.S. persons by or with foreign persons. Section 721, which was subject to the sunset provision of the DPA, lapsed on October 20, 1990, and was reinstated and made permanent law by Public Law 102-99 (signed August 17, 1991).

The period for receiving comments on the proposed regulations closed on September 14, 1989; during that time, over seventy parties—including private and public, as well as domestic and foreign entities—filed in total some 500 pages of comments. The changes that have been incorporated into the final version of the regulations reflect both suggestions made in those comments and the experience of the Committee on Foreign Investment in the United States ("the Committee") in reviewing transactions notified under section 721 since the proposed regulations were published. These changes are of a substantive nature as well as of a technical nature; examples of the latter include clarifications of terms and changes in format. The substantive issues will be discussed in the next section; the most significant technical changes will be discussed in the third section of this preamble.

II. General Discussion: Major Substantive Issues Raised by the Public Comments

Despite the wide range of interests represented by the public comments and the large volume of those comments, the comments generally focused on nine major issues: the meaning of "national security"; the scope of section 721's coverage, focusing largely on the size of a transaction or date of completion; the definition of "foreign control"; the application of section 721 to foreign lenders; the desirability of fast track treatment for certain types of transactions; the treatment of transactions involving hostile parties; the provisions of the regulations providing remedies for material omissions or errors; Committee procedures; and the possibility of a "sunset" on the President's power to act under section 721 on non-notified transactions. The suggested resolutions of these issues varied significantly in many cases. Each of these major issues, including some of the resolutions proposed by the public, will be discussed generally in this section of the preamble. A more detailed analysis, tied to the actual wording of the final regulations, follows in the next section. The final section reiterates certain information on international obligations of the United States that was set forth in the preamble to the proposed regulations.

NATIONAL SECURITY

The desire for a definition of "national security," or for expanded guidance as to the meaning of that term, was a major theme of the public comments. Commenters had a wide range of recommendations on this point. Their suggestions, as well as the Committee's view of them, will be discussed generally in the following paragraphs.

Some commenters suggested that changes be made in the regulations to incorporate either positive lists of products and services considered essential to the national security, or negative lists of areas that are not so considered. Other commenters suggested that the regulations incorporate a multi-factor test, based on a list of products and services the significance of which to the national security would depend on a number of other factors, such as the dollar value of the transaction, or the availability of the product or service from other U.S. suppliers. The Committee rejected these proposals, because they could improperly curtail the President's broad authority to protect the national security, and, at the same time, not result in guidance sufficiently detailed to be helpful to parties.

A third approach recommended in the public comments was to offer guidance as to the factors that are considered in a national security analysis. Such guidance would not have the legal effect of exemptions or lists, but would be intended to give the Committee's general views as to when filing might be considered appropriate. The Committee has adopted a limited form of this latter approach; however, since it believes such guidance is more appropriate to the preamble than the regulations themselves, the guidance is set forth below.

As is made clear in the principal legislative history (H.R. Report No. 576, 100th Cong., 2d Sess. 925-928, hereinafter "Conference Report"), the focus of section 721 is on transactions that could threaten to impair the national security. Although neither the statute nor the Conference Report defines national security, the conferees explain that it is to be interpreted broadly and without limitation to particular industries. Conference Report at 926-927. In line with both the statute and the Conference Report, the final regulations do not define "national security." Ultimately, under section 721 and the Constitution the judgment as to whether a transaction threatens national security rests within the President's discretion.

Generally speaking, transactions that involve products, services, and technologies that are important to U.S. national defense requirements will usually be deemed significant with respect to the national security. It is the Committee's view that notice, while voluntary, would clearly be appropriate when, for example, a company is being ac-

quired that provides products or key technologies essential to U.S. defense requirements. On the other hand, the Committee does not intend to suggest that notice should be submitted in cases where the entire output of a company to be acquired consists of products and/or services that clearly have no particular relationship to national security.

The regulations contemplate that persons considering transactions will exercise their own judgment and discretion in determining whether to give notice to the Committee with respect to a particular transaction. Nonetheless, persons wishing to seek general guidance are invited to contact the office of the Staff Chairman, at the address and telephone number indicated above.

In addition to proposing changes to the regulations themselves, a number of commenters suggested that the Committee publish guidance outside the regulations, in order to enhance public understanding of "national security." For example, some suggested that the Committee issue binding advisory opinions with respect to transactions on the strength of something less than full notice. The Committee rejected this suggestion on the grounds that it would be impossible for the Committee to fulfill its obligation to make a thorough national security analysis based on an abbreviated or informal filing, and the Committee in such cases would generally have to advise the parties to submit a formal filing, resulting in lost time on both sides.

Several parties asked the Committee to consider publishing in summary form a digest of all the reviews and investigations the Committee had undertaken, including information on how the Committee disposed of each transaction. This approach was determined to have two essential shortcomings. First, national security considerations preclude revealing why the Committee or the President reached a particular view. Without that information, parties could inappropriately conclude that an outcome in a previous case would be relevant to the outcome of their own case where both appeared to involve similar facts and circumstances. The public would have no way of assessing which factors were most important to the Committee's final determination, or whether other factors, not mentioned in the summary, played an important role in the outcome. Second, the Committee is statutorily required to maintain confidentiality with respect to section 721 filings. Publication of even "cleansed" summaries could sacrifice the confidentiality of a filing and potentially create concerns by parties over inadvertent publication of business confidential information, while affording relatively little useful information to readers.

SCOPE OF COVERAGE

With respect to the scope of coverage of section 721, a number of parties suggested various "bright line" tests to eliminate certain transactions from coverage, primarily based on their size, but also on other criteria. For example, it was frequently suggested that transactions under a certain dollar threshold be exempted, on the theory that very small acquisitions could not possibly have a meaningful impact on the national security. Other parties suggested a test based on the market share represented by a particular transaction. Because the Committee's experience in reviewing notified transactions has demonstrated that there is no predictable relationship between the size or dollar value of a transaction and its significance to the national security, it decided that it would be inappropriate to adopt bright line tests based on such criteria.

Many commenters argued that there should be an exemption for transactions completed after the date on which section 721 became effective (August 23, 1988), but which were not notified to the Committee. The Committee has not adopted this suggestion, which, in the Committee's view, would seriously undermine the effectiveness of the statute.

The regulations establish a voluntary, rather than a mandatory, system of notice. Nevertheless, the Committee wanted to ensure that the President would be able to act with respect to any transaction that might threaten the national security. For this reason, agency notice was permitted for transactions that were not notified by parties to the transaction. Also, as an incentive for parties to give notice of transactions that might raise concerns, the possibility of Presidential action exists for completed transactions that have not been notified to the Committee.

This approach is justified by the language of section 721. The first sentence of paragraph (a) of section 721 provides:

The President or his designee may make an investigation to determine the effects on national security of mergers, acquisitions, and takeovers *proposed or pending on or after the date of enactment of this section* by or with foreign persons which could result in foreign control of persons engaged in interstate commerce in the United States. (Emphasis provided).

The plain meaning of this sentence is that one of two criteria must be present to bring a transaction under section 721. A transaction must have been proposed on or after the date of enactment, or it must be (or have been) pending on or after the date of enactment to be subject to section 721. This language does not exclude completed transactions. Thus, a transaction proposed on or after the date of enactment—regardless of

whether it is completed by the time of notice—is subject to section 721. Similarly, a transaction proposed before the effective date but still pending on or after that date would also be subject to section 721, again, regardless of whether it was completed at the time of notice.

Some commenters have read the second sentence of section 721(a) as suggesting that Congress did not intend to capture completed transactions. That sentence reads: "If it is determined that an investigation should be undertaken, it shall commence no later than 30 days after receipt by the President or the President's designee of written notice of the proposed or pending merger, acquisition, or takeover as prescribed by regulations promulgated pursuant to this section." (Emphasis added.) Some commenters have argued that this sentence suggests that transactions must also be proposed or pending *as of the time of notice*, thereby precluding notice of completed transactions.

However, it would be inconsistent with the national security purposes of the statute to infer that Congress intended to establish a large loophole by which parties could avoid a review under section 721 simply by not giving notice of a transaction. It is much more reasonable to view this language as reflecting the usual case, *i.e.*, that parties give notice of transactions while they are still proposed or pending, but not precluding notice of completed transactions as well. Once a transaction is subject to section 721, all of the powers and remedies granted the President under that section apply to the transaction, including, but not limited to, divestment relief. Section 721(c) provides that the President may "take any action * * * to suspend or prohibit any acquisition * * * proposed or pending on or after the date of enactment of this section * * * so that [foreign] control will not threaten to impair the national security." Section 721(c) further provides that the President "may direct the Attorney General to seek appropriate relief, including divestment relief * * * in order to implement and enforce this section." Again, the relief available under the statute for any transaction pending on or after the date of enactment is broad, and nothing in the statute narrows the availability of any Presidential remedies.

FOREIGN CONTROL

The proposed regulations defined control functionally, in terms of the ability of the acquirer to make certain important decisions about the acquired company, such as whether to dissolve the entity, or to relocate or close production or research and development facilities. A number of commenters complained that this standard is too nebulous, and advocated the adoption of a bright

line control test based on a particular percentage of stock ownership and/or the composition of the board of directors. Given the national security purposes underlying section 721, the Committee believes it would be inappropriate to adopt such bright line tests, which would make it relatively easy to structure transactions to circumvent the statute. However, the Committee did make certain minor adjustments in the control standard to remove unnecessary ambiguity. These changes are discussed below in the section-by-section analysis at §§800.204 and 800.211.

FOREIGN LENDERS

At the time the proposed regulations were drafted, the Committee had almost no information on how section 721 would affect transactions involving foreign lenders. The proposed regulations were therefore deliberately vague as to whether foreign lending transactions would be covered and, if so, the appropriate time for giving notice—*i.e.*, at the time a loan was made, or at the time of default. Since the publication of the proposed regulations in July 1989, the Committee has had more experience in reviewing lending transactions, in addition to the benefit of the public comments. Although the comments were not unanimous on this point, most commenters urged that lending transactions not be covered at the time a loan is made, in view of the unlikelihood that the loan itself will culminate in the foreign lender's acquiring control.

However, these commenters were nevertheless concerned that foreign lenders be given some assurance that the value of their security interest would not be affected by CFIUS action. The Committee concluded that the acquisition of a security interest, without control, is not covered by section 721. Thus, if a lending transaction included, for example, contractual or other arrangements that conferred control, the transaction would be subject to section 721. However, the Committee would not view standard provisions of loan contracts (*e.g.*, ordinary covenants of the borrower pertaining to liens, or a lender's right of veto over mergers or the sale of property), in and of themselves, to confer control over the borrower. (See the discussions below under §§800.302 and 800.303 for further elaboration of the treatment of foreign lending transactions.)

INTERNAL FAST TRACK MECHANISM

A number of commenters urged the adoption of a fast track procedure for reviewing notices under section 721 that clearly do not raise serious national security concerns. Because of the very short time frame for reviews that already exists (as provided in the statute), and in order not to encourage parties to give notice of marginal transactions,

the Committee decided not to create a formal fast track in the regulations. The Committee Staff Chairman is available to discuss proposed transactions with parties contemplating notice.

HOSTILE TAKEOVERS

Fast track treatment of notified transactions involving hostile parties was also requested in several of the comments, on the grounds that the delay caused by Committee review under section 721 can unfairly give a target company time to thwart an unsolicited bid. Although this has not been a significant problem to date, the Committee will not tolerate attempts to delay or obstruct the review process; the final regulations make clear that the parties that did not file the notice must file information requested by the Staff Chairman within seven days of that request. (See the discussion in the section-by-section analysis at 800.402.) If necessary, the Committee can resort to its subpoena authority in the Defense Production Act to enforce compliance with section 721.

REMEDIES FOR MATERIAL OMISSIONS AND ERRORS

Many of the commenters contended that the absence of any definition for "material" in §§800.601 (pertaining to material omissions) and 800.701 (pertaining to material changes) creates uncertainty about the finality of any decision by the President not to investigate or take other action with respect to a notified transaction. To lessen this uncertainty, some commenters suggested that the final regulations incorporate a limit on the President's authority to reopen consideration of a transaction previously considered under section 721 due to a material omission. Others suggested that there be a time limit on the Committee's ability to reject a notice on the grounds of material change. The Committee did not adopt either of these time limitations. The former could potentially reward parties who conceal information or fail to take adequate care to bring all material facts about a transaction to light in a notice. The latter limitation could prevent the Committee from declining to complete its review of a transaction that changes radically very late in the 30-day review period, and could force an investigation even in a case where it would not otherwise be necessary.

The Committee also did not accept the suggestion made by a few commenters that a transaction be reopened only when the Committee can show that the parties deliberately withheld material information. If information is material to the Committee's or the President's deliberation, it is irrelevant to the issue of materiality whether the information was intentionally withheld. The Committee has accepted suggestions that

greater guidance as to the meaning of "materiality" be given in the regulations. It is also important to note that parties may at any time during the course of a review under section 721 amend the notice to apprise the Committee of an omission in the original filing or of a change in the transaction since the time the filing was made, and that such an amendment will not necessarily affect the Committee's ability to complete its review of the transaction within the statutory time periods. From the parties' perspective, it is clearly advantageous to bring material changes and omissions to light during the course of a review, rather than to risk discovery of such matters by the Committee at a subsequent time.

A material change that occurs during the course of review that is not brought to the Committee's attention will be subsequently viewed as an omission, and may cause the Committee to reopen its consideration of a case. The same would be true of a change that occurs after the President has announced his decision but was contemplated by the parties at the time the transaction was under review and not communicated to the Committee. However, recognizing that businesses often change in terms of function and structure, the Committee would not consider a material change that is both conceived and executed after the President's determination as a basis for reopening a case.

COMMITTEE PROCEDURES

Commenters made a number of suggestions regarding Committee procedures. In some cases, the Committee had already been following the recommended procedures, and the final rule makes that explicit. For example, in appropriate instances, the Committee has met with parties involved in particular transactions in order to obtain further clarification or elaboration of the materials presented in the initial filing.

It is worth noting that the Committee follows certain other procedures, not spelled out in the final regulations, that help ensure the fairness of the review process. For example, the Committee sometimes receives unsolicited communications from third parties concerning certain transactions. In order to ensure fairness, the Committee generally requests the parties to comment on the substance of third party communications that the Committee believes may be relevant to its full understanding of the notified transaction. Similarly, the Staff Chairman handles all communications by the Committee with the parties, so as to avoid any confusion resulting from contacts with individual Committee members by the parties or third parties.

A number of the recommendations in the comments about Committee procedures would make the review process a highly formalistic, adversarial process. This outcome

was considered undesirable by the Committee, and such recommendations were not accepted. For example, the Committee did not adopt the suggestion that the parties be required to exchange public versions of their submissions to the Committee, or that material be filed only under oath. The Committee believes that giving the parties an opportunity to comment, when appropriate, on the substance of statements made by each other, as well as by non-governmental third parties, adequately ensure the integrity of the review process.

SUNSET ON PRESIDENTIAL AUTHORITY UNDER SECTION 721

Another concern expressed in the public comments pertained to the fact that the statute places no time limits on the President's authority to take action with respect to non-notified transactions. Some commenters argued that the absence of a limit on the President's power to divest a completed transaction effectively converts section 721 into a screening mechanism, since most parties will file notices to eliminate the possibility of future divestment. Several commenters suggested adoption of a sunset.

The Committee acknowledges that parties may have to make difficult decisions about whether or not to file under section 721, particularly when time is a critical factor in closing a deal. However, in the Committee's view, it would be inappropriate for the regulations to limit the President's authority to protect the national security with respect to any given transaction after a particular time. Instead, the regulations contain a new provision that limits to three years the time during which an agency can give notice with respect to a completed transaction. After the three year period, only transactions that appear to raise national security concerns can be reviewed and investigated, pursuant to a request from the Chairman of the Committee, in consultation with other members of the Committee. (See below §800.401.)

Some commenters evidently fear that a transaction could be reviewed several years after it was completed. The Committee notes that divestment with respect to a completed but non-notified transaction would be limited by the requirement in paragraph (d) of §800.601 that it be based on facts, conditions, or circumstances existing at the time the transaction was concluded. Parties should also note the addition of a new limitation on reviewing completed transactions, which has been incorporated at §800.601(d). Advice in writing by the Committee that a notified transaction is not subject to section 721, *e.g.*, because the transaction would not result in foreign control of a U.S. business, is final and binding with respect to the transaction, as long as the information on which that determination is based is accurate with respect

to the transaction. However, subsequent changes in the material facts pertaining to control, *e.g.*, a proposal by the foreign party to acquire additional stock, may result in a situation where notice to the Committee could be appropriate.

INTERNATIONAL OBLIGATIONS

In discharging its responsibilities under section 721, the Committee takes a case-by-case approach. The Conference Report states that section 721 is not intended to abrogate existing obligations of the United States under treaties, including Treaties of Friendship, Commerce and Navigation. Conference Report at 927. Those treaties contain national treatment provisions under which the United States is obligated to extend foreign parties treatment no less favorable than that accorded domestic parties, but is permitted to institute measures to protect U.S. national security. The Committee intends to implement section 721 and the regulations in a manner fully consistent with the international obligations of the United States.

III. Section-by-Section Discussion of Changes

The Definitions section, subpart B, has been alphabetized.

Section 800.201. In subsection (a), the definition of acquisition has been expanded to include specifically the acquisition of a person by a proxy contest undertaken for the purpose of obtaining control. In the preamble to the proposed regulations, the Committee requested public comments on the desirability of covering proxy contests under the regulations. The comments were inconclusive on this point. The Committee decided to cover specifically proxy contests undertaken for the purpose of obtaining control, such as a contest to change the board of directors, because such a contest represents a takeover attempt. Parties may give notice at or just prior to the time a proxy solicitation commences. However, contests undertaken for any purpose other than to obtain control would not be covered by the regulations.

In subsection (b), qualifying language has been added to the provision concerning the acquisition of assets where, in addition to the asset acquisition, the acquirer will make substantial use of the seller's technology. The qualifier "excluding technical information generally accompanying the sale of equipment" is intended to convey that an acquisition of assets is not covered by section 721 unless the technology acquired by the foreign person is separate and apart from that inherent in, or typically accompanying the asset, such as instruction manuals and operating procedures that would routinely accompany equipment.

Section 800.204. The definition of control in the proposed regulations included the ability to "formulate" matters or decisions affect-

ing an entity. A number of public commenters noted that the ability to "formulate" in this sense is not a meaningful index of control, since technically any shareholder has this right. To alleviate any uncertainty on this point, "formulate" has been dropped from the definition.

The definition of control has also been modified with the addition of subsection (b) to clarify that a U.S. person will not automatically be deemed to be foreign-controlled where a number of unrelated foreign parties hold an interest in that person. This point would apply even when the foreign parties taken as a whole hold the majority of stock in a U.S. company. The Committee would have to determine in such a case, as it would in any notified transaction, whether any single foreign party, acting on its own or in concert with another party (*e.g.*, through contractual arrangements), could control the U.S. person.

Section 800.213. A minor change to the wording of the definition of *foreign person* has been made to emphasize that there must be the present potential for control by a foreign interest, rather than a mere remote possibility, for an entity to be considered a foreign person under section 721. Whereas the regulation previously read "an entity over which control is *or could be exercised* by a foreign interest," the underlined phrase has been replaced by "exercised or exercisable" to alleviate vagueness or remoteness in the standard. Thus, only the present potential for control (regardless of whether the foreign interest actually exercises it) matters for purposes of this section.

Section 800.216. The proposed regulations left unresolved the issue of who are the parties to an acquisition in the case of a proxy solicitation. In light of the Committee's decision to cover proxy solicitations undertaken for the purpose of obtaining control just prior to and at the time the solicitation is made, the final regulations make both the persons soliciting proxies as well as the person who issued the voting securities parties to the acquisition.

Section 800.219. To make this section consistent with the modified definition of control, the word *formulation* has been deleted from the definition of "solely for the purpose of investment." (See §800.204 above.) With respect to §800.302(d) (which should be consulted), a party that has no intention of determining or directing the basic business decisions of the issuer, and who does not possess or develop any purpose other than investment, or take any action inconsistent with that purpose, would be deemed to hold securities solely for the purpose of investment.

Section 800.222. This section defines U.S. person as any entity "but only to the extent of its business activities in interstate commerce in the United States, irrespective of

the nationality of the individuals or entities which control it." To underscore the significance of that qualifier to the definition, a third example has been added to this section. The example describes the acquisition by a foreign person of a foreign subsidiary of a U.S. corporation. In the facts presented by the example, the foreign subsidiary has no fixed place of business in the United States, but merely exports goods to the U.S. parent and to unaffiliated companies in the United States. The acquisition of such an entity by a foreign person would not constitute the acquisition of a U.S. person under section 721 because the mere export of goods to the United States by a foreign subsidiary with no fixed place of business in this country does not constitute "business activity in interstate commerce in the United States" for purposes of the section.

Section 800.301. A few points pertaining to joint venture transactions have been clarified in this section. First, a joint venture transaction is subject to section 721 only if an existing, identifiable business in the United States is contributed to the venture. A joint venture transaction in which the U.S. contribution is a company founded for the purposes of the transaction would not be subject to section 721. Moreover, even where an identifiable business has been contributed to the venture, the transaction is not subject to section 721 unless the foreign party would control the venture. Therefore, joint venture transactions in which control is equally shared by the U.S. partner and the foreign partner, *i.e.*, where each party has a veto power over all the decisions of the joint venture, would not be subject to section 721. It is important to note, however, that this rule does not apply to other forms of business organization, such as when a foreign person acquires 50 percent of the stock of an existing U.S. company. In such cases, the Committee may, depending on the other facts surrounding the transaction, conclude that the stock acquisition confers control on the foreign person.

Section 800.302. Subsection (i) has been added to §800.302 as a corollary to section 301(b)(1), which provides that proposed or completed acquisitions by or with foreign persons which could or do result in foreign control of a U.S. person would be subject to section 721. Subsection (i) of §800.302 provides that an acquisition (1) that does not involve the acquisition of control of (2) a person engaged in interstate commerce in the United States (*i.e.*, a U.S. person) would not be subject to section 721. Two examples are provided to illustrate the two components of this provision. First, with respect to the acquisition of control, when a foreign person acquires an interest, such as stock, in a U.S. person, but that interest is insufficient to confer control, the acquisition is not subject to section 721. The Committee's options for

handling a notice of such a transaction are set out in §800.403 of the regulations.

Second, with respect to the component pertaining to being engaged in interstate commerce in the United States, Example 2 is intended to illustrate that the acquisition of a business that is essentially a non-operational shell—*i.e.*, having no employees, plants, equipment, or subsidiaries in the United States—would not satisfy this component and would therefore not be an acquisition subject to section 721.

Section 800.303. This section has been added to the regulations to clarify the Committee's treatment of lending transactions. As explained under §800.302 above, the acquisition of a security interest by a foreign lender in a lending transaction does not, without control, subject a transaction to section 721. Section 800.303 provides that the Committee will not accept notices of such transactions. However, the Committee will accept notice of such transactions where, because of actual or imminent default or other condition, the foreign lender is likely to obtain control of the U.S. person. In general, the Committee will accept the parties' view of the imminence of default, recognizing that in some cases waiting too long before filing notice could affect the lender's recourse to certain remedies, or the willingness of the borrower to cooperate fully in the preparation of a filing.

Some commenters argued that if the Committee does not accept notices of lending transactions until actual or imminent default, the lender will never have adequate assurance of the value of its security interest, which may eventually discourage foreign lenders from entering into financing transactions that may be subject to section 721. Some argued that the acquisition of stock or assets as a result of a default should be exempt from section 721, because it is essentially similar to an acquisition pursuant to an insurance contract made in the ordinary course of business, which is exempt under §800.302(g). The Committee does not find it appropriate to exempt the acquisition of a U.S. person that results from a borrower's default. However, to help alleviate the lenders' concerns in such circumstances, the Committee will take into account steps the lender takes to transfer day-to-day control over the U.S. person to U.S. nationals, pending final sale of the U.S. person. For example, in appropriate cases, the Committee could determine that the lender does not control a company acquired through default when it appoints a trustee to run the company and commits to sell it within a specified reasonable period of time.

Section 800.303 also contains a special provision—subsection (b)—for foreign banks participating in loan syndications. In view of the limitations on control of the borrower by any one bank that are often inherent in the

structure of a syndicate of banks in a loan participation, the Committee will deem any foreign lender in a syndicate not to have control for purposes of section 721 where such lender needs the consent of the majority of the U.S. participants to take action, or does not have a lead role in the syndicate and is subject to a special provision limiting its influence, ownership or control over the borrower.

Section 800.401. This section contains a new provision with respect to non-notified transactions. No agency notice can be made with respect to such a transaction more than three years after the date it was concluded unless the Chairman of the Committee, in consultation with other members of the Committee, requests an investigation. This provision was added to assuage public concern that non-notified transactions are indefinitely subject to divestment by the President. The President's powers under section 721 are *not* affected by this provision.

Section 800.402. Until now, the Committee has been willing to accept notices of transactions from just one of the parties to a transaction, recognizing that in some cases one of the parties alone will be able to provide answers and materials responsive to the questions posed in §800.402. Although the Committee will continue to accept joint notices prepared by just one party to a transaction that give information with respect to all the parties, the final regulations require all the parties to sign such a filing, thereby indicating to the Committee that each party is satisfied that the information in the filing pertaining to it is accurate and complete.

With respect to filings submitted by a party independently of the other parties, several points are worth noting. First, a minor wording change has been made in paragraph (1) of subsection (b) of this section for purposes of clarity: "Such information" has been replaced by "the information set out in this section." Although the phrase in that paragraph, "to the extent known or reasonably available to it," remains unchanged from the proposed regulations, it merits discussion here in order to remove any uncertainty. When a party giving notice is unable to answer fully a question pertaining to the other party, it is not excused by the words "to the extent known or reasonably available to it" from submitting a complete and accurate filing, as has evidently been assumed by some parties. The Committee expects that in such a case either the party giving notice will obtain the assistance of the other party or parties, or that the latter independently will make a filing to the Committee, supplying the relevant information.

In any case, the Committee will delay beginning the initial thirty-day review period until the filing is complete with respect to both parties. Subsection (b) makes clear that the Staff Chairman of the Committee, when

necessary, will contact directly the party or parties that did not file the notice and request that information responsive to §800.402 be filed within seven days of receipt of the request.

A new provision has been added to subsection (c), requesting parties to submit a summary of the transaction. The Committee requests that the party(ies) that give notice be as clear and concise as possible. A readily understandable summary will expedite the Committee's work.

Paragraph (3) of subsection (c) has also been modified to lengthen the period of time from three to five years for which contracts involving classified information should be described in a filing. As for contracts with the Department of Defense or any other agency of the U.S. Government with national defense responsibilities (such as the Department of Energy or the Nuclear Regulatory Commission), which contracts do not involve classified information, parties should continue to provide information for the past three years only.

Section 800.403. This new section sets out the Committee's options for handling certain voluntary notices; most of these points have been addressed in the preceding discussion. The Committee will delay acceptance of a notice that does not comply with §800.402. It reserves the right to reject a voluntary notice at any time before action by the Committee or the President has been concluded, if there has been a material change in the notified transaction.

As provided in §800.403(a)(4), the Committee will also inform the party submitting a voluntary notice if it decides not to undertake a substantive review of a transaction because it has determined that the notified transaction is not subject to section 721. For example, where the Committee determines that a notified transaction will not result in foreign control, the Committee would inform the parties of the nature of its determination, (e.g., no foreign control) and advise them to consider filing at a later date should an acquisition of control be contemplated.

Section 800.404. A technical wording change has been made to this section (which was numbered §800.403 under the proposed regulations). The words "has been accepted" in the first sentence of that section replace "is received" to underscore that the 30-day review period does not begin until the Chair has determined that the voluntary notice complies with the requirements of §800.402. Further technical changes were made to subsection (a) to reflect changes made in §800.401 concerning agency notice.

Section 800.501. Subsection (b) has been added to this section to make explicit a practice the Committee has been following since it began receiving notices under section 721, *i.e.*, inviting the parties to certain

notified transactions to meet with the Committee. The Staff Chairman, at his discretion, may invite the parties to a meeting to clarify certain issues with respect to the filing; such a meeting may occur either during the 30-day review period or during the investigation. When the parties involved in investigations request a meeting with the Committee, the request is ordinarily granted.

Section 800.601. A number of commenters expressed concern that the finality of Committee or Presidential action under section 721 is called into question if there is a right to reopen consideration of a case on the basis of material omissions or material misstatements. This section has been expanded in an attempt to allay some of those concerns. Subsection (f) has been added to clarify the matters the Committee considers "material": These are confined to information requested by §800.402 of the regulations; information requested by the Committee during the course of an initial review, an investigation, or the Presidential determination period; or information provided by the party(ies) *sua sponte*. However, the Committee will generally not find information to be "material" if it concerns purely commercial matters having no bearing on national security, such as the price of stock.

DRAFTING INFORMATION

The principal author of this document is the Office of the Assistant General Counsel (International Affairs). However, personnel from other offices at the Treasury Department and from other agencies that are members of the Committee participated extensively in its development.

[56 FR 58780, Nov. 21, 1991. Redesignated and amended at 59 FR 27180, May 25, 1994]

APPENDIX B TO PART 800—PREAMBLE TO REGULATIONS ON MERGERS, ACQUISITIONS, AND TAKEOVERS BY FOREIGN PERSONS (PUBLISHED MAY 25, 1994)

NOTE: For the convenience of the reader, this appendix contains the text of the preamble to the final rules amending the regulations on mergers, acquisitions, and takeovers by foreign persons beginning at the heading "Discussion of the Final Rule" and ending before "List of Subjects in 31 CFR Part 800" (59 FR 27178, May 25, 1994).

DISCUSSION OF THE FINAL RULE

Section 837(a) of the Defense Authorization Act creates for the first time a mandatory investigation provision under Exon-Florio. There are three points worth noting about this provision. First, this provision is limited in application to certain types of acquisitions. Specifically, the acquirer in question must be a foreign government controlled entity, or an entity acting on behalf of a for-

ign government. Furthermore, the acquisition must be one which "could result in control of a person engaged in interstate commerce in the United States that could affect the national security of the United States" (emphasis added). Thus, even where the other specified criteria are met, this provision does not mandate an investigation for cases that could not "affect the national security of the United States."

Second, for purposes of determining whether the acquisition results in foreign government control, CFIUS is applying the same functional test for control as provided in §800.204.

Third, in contrast to the criterion for Presidential action under Exon-Florio, *i.e.*, that the foreign party acquiring control might take action that "threatens to impair the national security," the criterion for undertaking an investigation of transactions involving government controlled entities is that there could be an effect on the national security.

The term "foreign government" has been broadly defined for purposes of these regulations to include any government or body exercising governmental functions, and includes but is not limited to national as well as various regional and local levels of government. It is important to note that the definition is not limited to the particular levels of government that are specified in the regulation, and that other governmental bodies, including supra-national entities such as the European Union (including its component parts), are covered by this regulation.

For purposes of the mandatory investigation provision, the regulations define the term "engage in" as used in the phrase "seeks to engage in any merger, acquisition or takeover * * *" to mean "seeks to acquire control through." The purpose of this regulation is to clarify that the mandatory investigation provision would not be triggered in cases where a foreign government controlled entity's participation in an acquisition is solely for the purpose of investment, as defined in §800.217 of the regulations. The Committee believes that this reading is supported by the legislative history, and particularly floor statements made by members of Congress who sponsored this particular amendment. *See, e.g.*, Cong. Rec., Sept. 18, 1992, pages S 14050 through 14053 (comments of Senators Exon, Sarbanes and Riegle); and Cong. Rec. Oct. 3, 1992, page H 10986 (comments of Representative Collins). Subparagraph 800.402(c)(5)(iii) has been changed in the final regulations by the addition of the words "for example" to clarify that an agency or representative role are examples of ways in which a foreign person can act on behalf of a foreign government, but are not the only ways in which such a relationship could be conducted.

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from other offices of the Treasury Department and from other agencies that are members of the Committee participated extensively in its development.

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