

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 67-227  
November 17, 1967

**To the Banks, Nonbank Financial  
Institutions and Other Firms Addressed  
in the Eleventh Federal Reserve District:**

There is enclosed a copy of the revised guidelines for the 1968 Voluntary Foreign Credit Restraint Program applicable to commercial banks and nonbank financial institutions.

Commercial banks again are requested to keep their foreign assets within 109 per cent of the amount outstanding on December 31, 1964, which is the target ceiling provided by the 1966 and 1967 programs. Some flexibility is provided by the 1968 program in that banks which had relatively small bases on December 31, 1964, but which had at least \$500,000 in foreign assets on October 31, 1967, may now adopt as a target ceiling for 1968 either the ceiling under the 1967 program or 2 per cent of total assets on December 31, 1966. Banks using the 2 per cent option are requested to utilize any increase gained over the 1967 ceiling solely to make priority credits, that is, credits to finance exports of U. S. goods and services to developing countries.

All banks are requested to limit the use of any leeway gained under the 1968 program to a rate not exceeding 20 per cent of the leeway per quarter, beginning with the fourth quarter of 1967. Further, all banks are requested to hold the level of nonexport financing to developed countries of continental Western Europe to or below the amount outstanding on October 31, 1967.

The program for nonbank financial institutions (which includes insurance companies, trust companies, mutual savings banks, pension and endowment funds, charitable foundations, etc.) remains substantially the same as that for 1967. However, the target ceiling applicable to assets covered by the guidelines has been increased from 105 per cent of adjusted base date holdings, effective through 1967, to 109 per cent for 1968. Reporting requirements have been modified by providing that only those nonbank institutions holding at least \$500,000 in covered assets or \$5,000,000 in total foreign assets are requested to report quarterly to this Reserve Bank.

Additional copies of these guidelines may be obtained from this bank or appropriate branch. Your continued cooperation with this important program will be appreciated.

Yours very truly,

Watrous H. Irons  
President

Enclosure

## **BALANCE OF PAYMENTS PROGRAM 1968 GUIDELINES FOR BANKS AND NONBANK FINANCIAL INSTITUTIONS**

The financial community has continued its excellent cooperation with the President's voluntary foreign credit restraint program during 1967. Foreign credits of commercial banks increased by only \$120 million in the first three quarters of 1967, far less than would have been permitted by the guidelines. The banks were \$783 million below the end-1967 ceiling on September 30, 1967, and \$532 million below the interim ceiling effective on that date. Foreign claims of nonbank financial institutions subject to the guidelines declined by \$76 million, or 3.9 per cent, during the first six months of 1967. These institutions were \$57 million below the target ceiling at the end of June 1967.

However, the balance of payments situation has not improved during 1967, and it is considered necessary to continue the voluntary effort to restrain the outflow of private capital. Accordingly, the Board of Governors has revised the guidelines for financial institutions as set out hereinafter.

### **THE 1968 PROGRAM FOR COMMERCIAL BANKS**

The 1968 ceiling for banks accounting for about 95 per cent of the 1967 ceiling will remain at the level for 1967, generally 109 per cent of the end-1964 base. Banks whose ceiling target for 1967 was less than 2 per cent of total assets as of December 31, 1966, may take the latter figure as their 1968 ceiling. Such banks are requested to use the amount of the increase over their 1967 ceilings only for priority credits, i.e., export credits or credits to developing countries.

The leeway available on September 30, 1967, together with the increase in the 1968 ceiling related to the alternative method of calculating that ceiling, provides a potential leeway for an outflow of bank credit in 1968 of about \$1.4 billion. Therefore, each commercial bank again is requested to limit the use of its leeway over the year; that is, to use not more than 20 per cent of the leeway available as of October 31 before January 1, 1968, not more than 40 per cent before April 1, 1968, not more than 60 per cent before July 1, 1968, and not more than 80 per cent before October 1, 1968.

Furthermore, banks are requested to hold nonexport credits to developed countries of continental Western Europe to or below the level of such credits outstanding on October 31, 1967.

These revisions in the guidelines, effective October 31, 1967, are designed to tighten somewhat the overall restraint on flows of bank capital abroad, to reduce inequities which have built up over the life of the program, and to give a further stimulus to banks to direct foreign credits to export financing and to the financing of the developing countries.

### **THE 1968 PROGRAM FOR NONBANK FINANCIAL INSTITUTIONS**

There are no substantial changes in the 1968 guidelines for nonbank financial institutions. The definition of "covered" assets established in the 1967 guidelines still applies. The target ceiling applicable to covered assets has been increased from 105 per cent of adjusted base date holdings, effective through 1967, to 109 per cent for 1968.

Reporting requirements are eased by providing that only financial institutions holding covered assets of \$500,000 or more, or total foreign assets of \$5 million or more, are expected to report to their Federal Reserve Bank. It is estimated that this will reduce the number of reporting institutions from about 575 to about 340.

The group of institutions covered by the nonbank guidelines includes trust companies and trust departments of commercial banks, mutual savings banks, insurance companies, investment companies, finance companies, employee retirement and pension funds, college endowment funds, and charitable foundations. Also included are the U.S. branches of foreign insurance companies and of other foreign nonbank financial corporations. Investment underwriting firms, securities brokers and dealers, and investment counseling firms also are covered with respect to foreign financial assets held for their own account and are requested to inform their customers of the program in those cases where it appears applicable.

## GUIDELINES FOR BANKS

### 1. CEILING AND REPORTING

#### A. Meaning of terms

(1) "Foreigners" include individuals, partnerships, and corporations domiciled outside the United States, irrespective of citizenship, except their agencies or branches located within the United States; branches, subsidiaries, and affiliates of U. S. banks and other U. S. corporations that are located in foreign countries; and any government of a foreign country or official agency thereof and any official international or regional institution created by treaty, irrespective of location.

(2) "Foreign long-term securities" are those issued without a contractual maturity or with an original maturity of more than 1 year from the date of issuance.

(3) "Other claims" include all long-term claims other than securities, real assets, net investment in and advances to foreign branches and subsidiaries, and all short-term claims (such as deposits, money market instruments, customers' liability on acceptances, and loans).

(4) "Leeway" means the difference between the ceiling for 1968 as described in Section C below and the amount of foreign credits outstanding on October 31, 1967.

(5) "Nonexport credit" means a foreign credit other than one that arises directly out of the financing of exports of U. S. goods or services or that is reasonably necessary for the financing of such exports.

(6) "Developed countries" are Abu Dhabi, Australia, Austria, the Bahamas, Bahrain, Belgium, Bermuda, Canada, Denmark, France, Germany (Federal Republic), Hong Kong, Iran, Iraq, Ireland, Italy, Japan, Kuwait, Kuwait-Saudi Arabia Neutral Zone, Libya, Liechtenstein, Luxembourg, Monaco, Netherlands, New Zealand, Norway, Portugal, Qatar, Republic of South Africa, San Marino, Saudi Arabia, Spain, Sweden, Switzerland, and the United Kingdom. Also to be considered "developed" are the following countries within the Sino-Soviet bloc: Albania, Bulgaria, any part of China that is dominated or controlled by international communism, Cuba, Czechoslovakia, Estonia, Hungary, any part of Korea that is dominated or controlled by international communism, Latvia, Lithuania, Outer Mongolia, Poland (including any area under its provisional administration), Rumania, Soviet Zone of Germany and the Soviet sector of Berlin, Tibet, Union of Soviet Socialist Republics and the Kurile Islands, Southern Sakhalin, and areas in East Prussia that are under the provisional administration of the Union of Soviet Socialist Republics, and any part of Vietnam that is dominated or controlled by international communism.

#### B. Specific inclusions and exclusions in calculating the ceiling

(1) Claims on foreigners should be included without deduction of any offsets. Foreign long-term securities held for banks' own account should be included. Foreign customers' liability for acceptances executed should be included whether or not the acceptances are held by the reporting bank. Participations purchased in loans to foreigners (except participations in loans guaranteed or participated in by the Export-Import Bank or insured by the Foreign Credit Insurance Association) also should be included.

(2) Contingent claims, unutilized credits, claims held for account of customers, acceptances executed by other U. S. banks, and loans guaranteed or participated in by the Export-Import Bank or insured by the Foreign Credit Insurance Association, should be excluded.

#### C. Ceiling

(1) Foreign credits included in the ceiling are a bank's total claims on foreigners held for own account, with the specific inclusions and exclusions set forth in Section B above. The 1968 ceiling for a bank reporting on Form F.R. 391 on October 31, 1967, and that had foreign assets of more than \$500,000 on that date, is the bank's 1967 ceiling for such credits or 2 per cent of the bank's total assets on December 31, 1966, whichever is larger.

However, all banks are requested to limit their outstanding foreign credits:

(a) Through December 31, 1967, to an amount not to exceed the amount outstanding on October 31, 1967, plus 20 per cent of the leeway.

(b) During the first quarter of 1968, to an amount not to exceed the amount outstanding on October 31, 1967, plus 40 per cent of the leeway.

(c) During the second quarter of 1968, to an amount not to exceed the amount outstanding on October 31, 1967, plus 60 per cent of the leeway.

(d) During the third quarter of 1968, to an amount not to exceed the amount outstanding on October 31, 1967, plus 80 per cent of the leeway.

(2) A bank that had no ceiling in 1967, or that had foreign assets of \$500,000 or less on October 31, 1967, may discuss with the Federal Reserve Bank of the Federal Reserve district in which it is located, the possibility of adopting a ceiling that would permit the bank to meet the reasonable foreign credit requirements of existing customers or needs originating in its normal trade area, but such special ceilings shall in no case be more than 2 per cent of a bank's total assets as of December 31, 1966.

In discussing the ceiling of such a bank, the Federal Reserve Bank will ascertain the bank's previous history in foreign transactions, including acceptance of foreign deposits or handling foreign collections, and the reasons why the bank considers that it should engage in foreign transactions.

#### **D. Reporting**

(1) Banks that report on Treasury Foreign Exchange Forms B-2 or B-3 or that have been granted a special ceiling under Section C (2) above should file a Monthly Report on Foreign Claims (Form F.R. 391/68) with the Federal Reserve Bank of the Federal Reserve district in which the bank is located.

(2) Copies of Form F.R. 391/68 are available at the Reserve banks.

### **2. LOANS GUARANTEED BY THE EXPORT-IMPORT BANK**

Loans guaranteed or participated in by the Export-Import Bank or insured by the Foreign Credit Insurance Association are excluded from the ceiling. The role of the Export-Import Bank within the framework of the President's program is coordinated by the National Advisory Council for International Monetary and Financial Policies.

### **3. CREDITS IN EXCESS OF CEILING**

A bank would not be considered as acting in a matter inconsistent with the program if it temporarily exceeds its interim ceiling as a result of the (a) drawdown of binding commitments entered into before November 16, 1967; or (b) extension of bona fide export credits.

The bank should, however, refrain from making new extensions of non-priority credits so as to reduce its claims on foreigners to an amount within the ceiling as quickly as possible. It should also take every opportunity to withdraw or reduce commitments, including credit lines, that are not of a firm nature and to assure that drawings under credit lines are kept to normal levels and usage. At time of renewal, each credit line should be reviewed for consistency with the program.

A bank whose foreign credits are in excess of the ceiling will be invited periodically to discuss with the appropriate Federal Reserve Bank the steps it has taken and proposes to take to reduce its credits to a level within its ceiling.

### **4. LOAN PRIORITIES**

Within the ceiling, absolute priority should be given to bona fide export credits. Credits that substitute for cash sales or for sales customarily financed out of nonbank or foreign funds are not entitled to priority.

With respect to nonexport credits, banks should give the highest priority to loans to developing countries and should avoid restrictive policies that would place an undue burden on Canada, Japan, and the United Kingdom.

It is further expected that the outstanding amount of nonexport credits to developed countries in continental Western Europe will not be increased during 1968 above the amount outstanding on October 31, 1967.

A bank adopting a 1968 ceiling equal to 2 per cent of its total assets on December 31, 1966, will be expected to use the excess over its 1967 ceiling only for priority credits — export credits and credits to developing countries — originating among the bank's regular customers or residents of its trade territory. That is, holdings of foreign credits on any reporting date should not exceed the 1967 ceiling by more than the increase in holdings of priority credits between October 31, 1967, and the reporting date.

## **5. TRUST DEPARTMENTS**

Trust departments of commercial banks should follow the guidelines with respect to nonbank financial institutions.

## **6. TRANSACTIONS FOR THE ACCOUNT OF CUSTOMERS**

A bank should bear in mind the President's balance of payments program when acting for the account of a customer. Although the bank must follow a customer's instructions, it should not encourage customers to place liquid funds outside the United States. A bank should not place with a customer foreign obligations that, in the absence of the voluntary credit restraint program, it would have acquired or held for its own account.

## **7. FOREIGN BRANCHES**

The voluntary credit restraint program is not designed to restrict the extension of foreign credits by foreign branches if the funds utilized are derived from foreign sources and do not add to the outflow of capital from the United States.

Total claims of a bank's domestic offices on its foreign branches (including permanent capital invested in as well as balances due from such branches) represent bank credit to nonresidents for the purposes of the program.

## **8. "EDGE ACT" CORPORATIONS**

"Edge Act" and "Agreement" Corporations are included in the voluntary credit restraint program. Foreign loans and investments of such corporations may be combined with those of the parent bank, or a separate ceiling may be adopted for the parent bank and each such subsidiary corporation. If such corporation is owned by a bank holding company, its foreign loans and investments may be combined for purposes of the program with any one or all of the banks in the holding company group.

## **9. U. S. BRANCHES AND AGENCIES OF FOREIGN BANKS**

Branches and agencies of foreign banks located in the United States are requested to act in accordance with the spirit of the domestic commercial bank voluntary credit restraint program.

## **10. LOANS TO U. S. RESIDENTS AND SUBSTITUTION OF DOMESTIC CREDIT FOR CREDIT FROM FOREIGN SOURCES**

There are a number of situations in which loans to domestic customers, individual as well as corporate, may be detrimental to the President's balance of payments program and hence should be avoided. Examples are:

(A) Loans to U. S. residents — individuals as well as corporations — that will aid the borrower in making new foreign loans or investments inconsistent with the President's program. Banks should avoid making new loans that would directly or indirectly enable borrowers to use funds abroad in a manner inconsistent with the Department of Commerce program or with the guidelines for nonbank financial institutions.

(B) Loans to U. S. subsidiaries and branches of foreign companies that otherwise might have been made by the bank to the foreign parent or other foreign affiliate of the company, or that normally would have been obtained abroad.

## **11. MANAGEMENT OF A BANK'S LIQUID FUNDS**

A bank should not place its own funds abroad for short-term investment purposes, whether such investments are payable in foreign currencies or in U. S. dollars. This does not, however, call for a reduction in necessary working balances held with foreign correspondents.

## GUIDELINES FOR NONBANK FINANCIAL INSTITUTIONS

Through the end of calendar year 1968, each institution is requested to limit its aggregate holdings of "covered" foreign financial assets to not more than 109 per cent of its "adjusted base-date holdings." Covered foreign assets and adjusted base-date holdings are defined as in the 1967 program.

Covered foreign financial assets, subject to the guideline ceiling, include the following types of investments:

1. Foreign bank deposits, including deposits in foreign branches of U.S. banks, and liquid money market claims on foreign obligors, generally defined to include marketable negotiable instruments maturing in 1 year or less.

2. All other claims on foreign obligors written to mature in 10 years or less at date of acquisition. This category includes all bonds, notes, mortgages, loans, and other credits, regardless of country of origin. Excluded are bonds and notes of international institutions of which the United States is a member, and loans guaranteed or participated in by the Export-Import Bank or insured by the Foreign Credit Insurance Association, regardless of maturity.

3. Net financial investment in foreign branches, financial subsidiaries, and affiliates, located in developed countries other than Canada and Japan.<sup>1</sup> Such financial investment includes payments into equity and other capital accounts of, and net loans and advances to, foreign corporations engaged principally in finance, insurance, or real estate activities, in which the U.S. institution has an ownership interest of 10 per cent or more. Excluded are earnings of a foreign affiliate directly retained in the capital accounts of the foreign corporation.

4. Long-term credits of foreign obligors domiciled in developed countries other than Canada and Japan.<sup>1</sup> Included in this category are bonds, notes, mortgages, loans, and other credits maturing more than 10 years after date of acquisition. Excluded are bonds of international institutions of which the United States is a member.

5. Equity securities of foreign corporations domiciled in developed countries other than Canada and Japan<sup>1</sup> except those acquired after September 30, 1965, in U.S. markets from American investors. The test of whether an equity security is covered will depend on the institution's obligation to pay the interest equalization tax on acquisition. Exclusion from covered assets under this program normally will be indicated when, in acquiring an equity security that otherwise would be covered, the purchasing institution receives a certificate of prior American ownership, or brokerage confirmation thereof.

"Base-date" holdings for any reporting date are defined as: (1) the lesser of (a) total holdings of covered foreign assets as of September 30, 1966, or (b) the amounts of covered foreign assets that could have been held as of September 30, 1966, in compliance with the guideline ceilings established by the 1966 voluntary program; less (2) equity securities of companies domiciled in developed countries (except Canada and Japan),<sup>1</sup> that are included in (1) but had been sold to American investors prior to the current quarter. "Adjusted" base-date holdings, to which the 109 per cent ceiling applies, are equal to "base-date" holdings as defined above, less sales of included covered equities during the current quarter.

In making foreign loans and investments subject to the guideline ceiling, institutions are asked to give absolute priority to credits that represent the bona fide financing of U.S. exports, i.e., financing necessary to consummate the export sale. In the case of credits to developed countries, a necessary export financing purpose will be indicated whenever the credit is exempted from the interest equalization tax, which would otherwise apply. Temporary excesses above the guideline ceiling may be permitted, where necessary, in order to accommodate these priority credits, but any institution that exceeds its target should consult with the Federal Reserve Bank of the Reserve district in which it is located regarding a program for moving back within the ceiling in a reasonable period of time.

Within the leeway provided by the 109 per cent ceiling, institutions also are requested to give priority consideration to the financing needs of the developing countries, and to avoid restrictive policies that would place an undue burden on Canada, Japan and the United Kingdom. But the investment of liquid funds abroad, in both bank deposits and money market instruments, should be held to minimum practicable levels consistent with the operating policies of the institution. Moreover, investments in assets of all types in the developed countries of continental Western Europe, except those directly financing U.S. exports, should not be permitted to exceed the total of such assets held on September 30, 1967.

Foreign financial assets not covered by the guideline are still reportable on the quarterly statistical reports to the Federal Reserve Banks, but are not subject to ceiling limitations. Such noncovered foreign investments include the following:

1. Bonds and notes of international institutions of which the United States is a member, regardless of maturity.
2. Long-term investments in Canada, Japan, and all developing countries, including credit instruments with final maturities of more than 10 years at date of acquisition, direct investment in financial subsidiaries, and all equity securities, issued by firms domiciled in these countries.
3. Equity securities of firms in developed countries other than Canada and Japan that have been acquired in U.S. markets from American investors (see Point 5 above).

Each nonbank financial institution holding, on any quarterly reporting date, covered assets of \$500,000 or more, or total foreign financial assets of \$5,000,000 or more, is requested to file a statistical report, covering its total holdings on that date, with the Federal Reserve Bank of the Federal Reserve district in which its principal office is located. The reports are due within 20 days following the close of each calendar quarter, and forms (F.R. 392R) may be obtained by contacting the Federal Reserve Bank.

## GENERAL CONSIDERATIONS

In cooperating in the voluntary foreign credit restraint program, the nonbank financial institutions are requested to refrain from making loans and investments inconsistent with other aspects of the President's balance of payments program. Among these are the following: (1) noncovered credits under this program that substitute for loans that commercial banks would have made in the absence of that part of the program applicable to them; (2) credits to U.S. corporate borrowers that would enable them to make new foreign loans and investments inconsistent with that part of the program administered by the Department of Commerce; (3) credits to U.S. subsidiaries and branches of foreign companies that otherwise would have been made to the foreign parent, or that would substitute for funds normally obtained from foreign sources.

The voluntary foreign credit restraint program for nonbank financial institutions does not apply to the investment, within the country involved, of reserves accumulated on insurance policies sold abroad, in amounts up to 110 per cent of such reserves. Furthermore, in view of the balance of payments objectives of the program, it is noted that covered investments of nonbank financial institutions may be permitted to exceed the guideline ceiling to the extent that the funds for such investment are borrowed in developed countries other than Canada and Japan. Any such arrangements to offset foreign borrowing against foreign investment should be discussed with the Federal Reserve Bank.

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<sup>1</sup> NOTE — Developed countries other than Canada and Japan: continental Western Europe — Austria, Belgium, Denmark, France, Germany (Federal Republic), Italy, Liechtenstein, Luxembourg, Monaco, Netherlands, Norway, Portugal, San Marino, Spain, Sweden, and Switzerland; other developed countries are: Abu Dhabi, Australia, the Bahamas, Bahrain, Bermuda, Hong Kong, Iran, Iraq, Ireland, Kuwait, Kuwait-Saudi Arabia Neutral Zone, Libya, New Zealand, Qatar, Republic of South Africa, Saudi Arabia, and the United Kingdom. Also to be considered "developed" are the following countries within the Sino-Soviet bloc: Albania, Bulgaria, any part of China which is dominated or controlled by international communism, Cuba, Czechoslovakia, Estonia, Hungary, any part of Korea which is dominated or controlled by international communism, Latvia, Lithuania, Outer Mongolia, Poland (including any area under its provisional administration), Rumania, Soviet Zone of Germany and the Soviet sector of Berlin, Tibet, Union of Soviet Socialist Republics and the Kurile Islands, Southern Sakhalin, and areas in East Prussia which are under the provisional administration of the Union of Soviet Socialist Republics, and any part of Vietnam that is dominated or controlled by international communism.

Enclosure to  
Circular No. 67-227  
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