FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 71-274
November 12, 1971

To the Banks, Nonbank Financial Institutions

and Other Firms Addressed in the Eleventh

Federal Reserve District:

There is enclosed a copy of the guidelines for the 1972 Voluntary Foreign Credit Restraint Program which are applicable to commercial banks and nonbank financial institutions. Significant provisions of the new guidelines are summarized in the press release issued by the Board of Governors of the Federal Reserve System on November 11, 1971, the effective date of the new guidelines. This press release is quoted in the enclosed document.

New reporting forms are in process of preparation. Banks which are requested to report monthly their claims on foreigners will be supplied with a revised F.R. 391 in time for preparation of the report requested for the end of November. Nonbank financial institutions, which report quarterly, will be supplied new F.R. 392 forms well before the end of December. If you have questions concerning this program or desire additional copies of the guidelines, please contact Vice President Cowan.

Yours very truly,

P. E. Coldwell

President

Enclosure

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FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

November 12, 1971

Revised Guidelines for Banks and Nonbank Financial Institutions Under the President's Balance of Payments Program

The following statement was made public November 11 by the Board of Governors of the Federal Reserve System:

Revisions in the Voluntary Foreign Credit Restraint (VFCR) guidelines to carry out legislation exempting export credits from the program were announced today by the Board of Governors of the Federal Reserve System.

The revisions include a new formula for calculating VFCR ceilings and a number of technical changes in the guidelines. The revised ceilings also are intended to reduce inequities among banks attributable to differing historical positions and to the exemption now accorded to export credits.

Members of the Senate-House conference committee who worked out the final language of the exemption legislation, enacted last August 17, said in their report that as many as 90 days might be required for the Board to work out modifications reflecting the exemption "as well as any further changes needed to continue the program in effect for nonexport financing." Subsequently, the Board on August 18 requested financial institutions participating in the program to continue to comply with the old guidelines for the time being.

Principal features of the guideline revisions, which are effective immediately, are:

1. Export credit to foreigners by banks and nonbank financial institutions is exempt from restraint under the guidelines.

2. The ceiling for nonexport financing of each VFCR reporting bank will be the highest of the following:

— 85 per cent of its General Ceiling as of September 30, 1971.

— Its General Ceiling as of September 30, 1971 minus any export credits subject to this ceiling as of that date.

— 2 per cent of its total assets as of December 31, 1970.

3. The ceiling for nonexport financing of each nonbank financial institution will be the higher of the following:

— Its ceiling as of September 30, 1971 minus export credits subject to the ceiling as of that date.

— 85 per cent of its ceiling as of September 30, 1971.

Governor Andrew F. Brimmer, who administers the program on delegated authority from the Board, said that the General Ceiling available to more than 180 VFCR reporting banks amounted to $9.9 billion as of September 30. Under the new formula, the reporting banks will have authority to extend nonexport credits totalling about $9.7 billion. Export credits under the General Ceiling amounted to approximately $1.2 billion at the end of September and about $405 million was outstanding under a special Export Term-Loan Ceiling. Thus, roughly $1.6 billion of export credits were eliminated from the VFCR restraints.

The Board said that the formula adopted is designed to minimize existing or potential inequities among banks cooperating in the program by permitting each bank to adopt the ceiling that it finds most advantageous in its particular circumstances. If there had been a single ceiling that reduced a bank's lending authorization by the amount of its export credits, a participating bank with substantial export financing would have experienced a sharp reduction in its over-all ceiling while a competitor which did little export financing to foreigners would have experienced only a slight reduction in ceilings.

The guidelines specify that the export credit exemption is not to be used by banks to repurchase from their foreign branches export loans that financed goods already shipped when the exemption came into force.

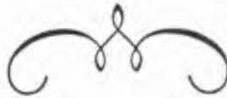
The Board also announced these technical changes in the program:

1. The sub-ceiling on short-term claims on residents of developed countries of Continental Western Europe is eliminated.

2. U.S. agencies and branches of foreign banks, already requested to act in accordance with the spirit of the guidelines, are asked to report monthly on their foreign lending positions.

3. The exemption for long-term credits to developing countries in the nonbank program is amended to prevent its use for the financing of oil tankers for oil companies established in industrial countries. Several oil companies through their subsidiaries in developing countries purchase or charter large oil tankers which have been constructed in foreign shipyards. The Board considered that activity of this type was not to be specially treated under provisions developed to help satisfy the credit needs of developing countries.

The text of the revised guidelines is printed below.



Federal Reserve Foreign Credit Restraint Guidelines

I. GENERAL PURPOSE

In order to help to strengthen the U.S. balance of payments, U.S. financial institutions are asked to restrain their foreign credit and investments, except credit that finances U.S. exports. Within these restraints, they are asked to give priority to meeting the credit needs of developing countries.

II. BANKS

A. Ceilings for Nonexport Financing

1. *Basic restraint on nonexport financing*

A bank is requested not to hold claims on foreigners or other foreign assets in excess of its Ceiling.

2. *Calculation of ceilings*

A bank will have a Ceiling which will be the greatest of the following:

a. 85 per cent of its General Ceiling, as of September 30, 1971, under the Federal Reserve Foreign Credit Restraint Guidelines then in effect (hereinafter, "the previous Guidelines");

b. its General Ceiling, as of September 30, 1971, minus export credit outstanding on that date (but see paragraph 3); or

c. 2 per cent of its total assets, as of December 31, 1970.

3. *Banks previously with ceilings*

A bank that had a ceiling under the previous Guidelines may automatically have a Ceiling under the present Guidelines in accordance with subparagraph 2a or c. A bank proposing to calculate a Ceiling under subparagraph 2b should have verifiable information to distinguish between its total export credits, as defined in Section IV-3, that were subject on September 30, 1971, to its General Ceiling and its other foreign assets and should give notice to the Federal Reserve Bank in the District in which it is located that it is adopting a Ceiling calculated under that subparagraph.

4. *Banks previously without ceilings*

A bank that did not have a ceiling under the previous Guidelines may adopt a Ceiling equal to 2 per cent of its total assets, as of December 31, 1970. The purpose of making a Ceiling available to a bank that did not have one is to enable the bank to engage directly in foreign financing. Therefore, the Ceiling should not be used to purchase from other U.S. financial institutions loans that the latter have already extended to foreigners.

Before adopting a Ceiling under this subparagraph, a bank should consult with the Federal Reserve Bank in the District in which it is located to apprise itself of the Guidelines and reporting requirements and to notify the Federal Reserve Bank of the amount of its Ceiling.

5. *Term loans to Western Europe*

Banks are requested not to grant to residents of the developed countries of Continental Western Europe loans of a maturity of over one year.

6. *Sales of foreign assets*

a. *Sales without recourse.* Banks are requested not to sell foreign assets that are subject to the Guideline Ceilings, without recourse, to a U.S. resident other than a financial institution participating in the Federal Reserve Foreign Credit Restraint Program or other than a direct investor subject to the Foreign Direct Investment Program administered by the Department of Commerce.

b. *Sales with recourse.* A bank that sells a foreign asset that is subject to its Ceiling, with recourse, to a U.S. resident should continue to report that asset under its Ceiling, unless the U.S. resident is a financial institution participating in the Federal Reserve Foreign Credit Restraint Program or is a direct investor subject to the Foreign Direct Investment Program administered by the Department of Commerce.

7. *Foreign borrowings*

In principle, the restraints under these Guidelines are imposed on gross foreign assets, including gross claims on foreigners. However, certain liabilities to foreigners may be counted as offsets to foreign assets, provided that the liabilities arise from borrowings abroad that substitute for direct investment capital outflow from the United States. Such offsetting may be done in the manner described below.

a. *Banks and Edge Act, and Agreement, Corporations.* A bank, an "Edge Act" Corporation, or an "Agreement" Corporation may not count its borrowings from, or its other liabilities to, foreigners as offsets to its claims on foreigners and other foreign assets.

b. *Domestic subsidiaries.* A domestically chartered subsidiary (for example, a so-called Delaware subsidiary) of an Edge Act Corporation or of an Agreement Corporation may count the outstanding amount of its borrowings from foreigners as offsets to its claims on foreigners and to its other foreign assets, provided those borrowings are of an original maturity of 3 years or more. Such borrowings would include debentures, promissory notes, or other debt obligations of the domestic subsidiary to a foreigner. The amount of the offset at any time would be equal to the amount of the outstandings after deducting (i) any repayments of principal and (ii) in the case of convertible debt issues, any conversions. This offsetting principle may be used to reduce the value of foreign assets of the subsidiary in computing the value of foreign assets to be consolidated for reporting purposes with those of the parent institution; any excess of outstanding borrowings of the subsidiary over foreign assets of the subsidiary may not be used to reduce the reportable value of foreign assets of the parent institution.

8. *Total assets*

For the purpose of calculating the Ceiling, total assets are those shown in the Official Report of Condition submitted to the relevant supervisory agency as of December 31, 1970.

B. Exclusions

1. *Export credits*

a. *Basic exemption.* Export credits, defined in Part IV–3, are exempted from restraint under these Guidelines. These include credits of the type previously subject to General and Export Term-Loan Ceilings. Banks should maintain adequate information and otherwise take all reasonable measures to provide assurance that credits meet the definition before treating them as exempted.

b. *Acquisition of previous foreign export credits.* The purpose of the exemption for export credits is to ensure that, as of the date of issuance of these revised Guidelines, no restraint is applied to the granting of credit that will finance U.S. exports. A bank should report under its Ceiling any outstanding loan that it purchases or repurchases from a foreigner, including its own branch, if that loan financed U.S. exports shipped (or financed U.S. services performed abroad) prior to November 11, 1971.

2. *Canada*

The extension of credit to residents of Canada or other acquisition of Canadian assets is exempted from restraint under these Guidelines.

3. *Securities of certain international institutions*

All direct obligations of international institutions of which the United States is a member are exempted from a bank's Ceiling.

C. Banks over ceilings

Banks are expected to observe their ceilings throughout the monthly reporting periods. Banks are not expected routinely to sell foreign assets immediately prior to the reporting date or otherwise engage in "window-dressing" activities.

A bank whose foreign assets are in excess of its Ceiling or otherwise conflicts with these restaints and which does not show improvement will be expected periodically to discuss with the Federal Reserve Bank in its District the steps it has taken and that it proposes to take to bring the amount of its foreign assets into conformity with these Guidelines.

D. Applicability to banks and bank-related financial institutions

1. *General*

The Guidelines are applicable to all U.S. banks (exclusive of trust departments of commercial banks, which should follow the Guidelines for nonbank financial institutions in Part III), to their domestically chartered subsidiaries at any level, and to bank holding companies and their domestically chartered subsidiaries at any level, except where those subsidiaries are covered by other U.S. capital restraint programs as noted in subparagraph 3b.

2. *Edge Act and Agreement Corporations*

a. *Policy of limiting aggregate ceilings.* It is intended that the establishment of new Edge Act Corporations or Agreement Corporations not result in the expansion of aggregate Ceilings under these Guidelines.

b. *One-bank-owned corporations.* An Edge Act or Agreement Corporation that is owned by one bank and that, under the previous Guidelines, had a ceiling separate from that of its parent bank may continue to have a Ceiling separate from that of its parent or may combine its Ceiling with that of its parent.

i) The Ceiling to which it would be entitled if it did not combine would be calculated as under Section A–2, for the corporation as a separate entity.

ii) An Edge Act or Agreement Corporation that is owned by one bank and that was established after March 3, 1965, should share the Ceiling of its parent bank.

c. *Multibank-owned corporations*

i) *Separate Ceilings.* An Edge Act or Agreement Corporation that is owned by more than one bank or by a multibank holding company will have a Ceiling separate from that of its parent and from those of the banks in its parent holding company. The corporation's Ceiling is to be determined in accordance with Section A-2 and, as appropriate, A-3 or A-4.

ii) *Transfer of parent's Ceiling.* To acquire or to increase a Ceiling, such an Edge Act or Agreement Corporation may receive from one or more of its parent banks (including banks of its parent holding company) a share of the Ceilings of the parent or parents. Once transferred to the corporation, the Ceiling should not be transferred in whole or in part back to the parent or parents, except to meet unforeseen and overriding developments. If any such exceptional need for retransfer should arise, the corporation and its parent or parents should consult in advance with the Federal Reserve Banks in their respective Districts.

d. *Domestic subsidiaries of Edge Act and Agreement Corporations*

The foreign assets of domestically chartered subsidiaries of Edge Act and Agreement Corporations (net of foreign borrowings offset under Section A–7b, above) should be consolidated with the foreign assets of the parent corporation for the purposes of the Guidelines.

3. *Bank holding companies*

a. *Holding companies as banks.* A bank holding company is to be treated as a bank for the purpose of these Guidelines.

b. *Holding companies with one bank.* A holding company with one bank which bank subsidiary has Ceilings under these Guidelines, together with that bank subsidiary and any nonbank subsidiary, should report on a consolidated basis. However, the Ceiling is to be calculated on the basis of the Ceiling of the bank subsidiary. Furthermore, to minimize changes from earlier established procedures, any nonbank subsidiary that was reporting prior to December 1, 1969, to the Department of Commerce under the Foreign Direct Investment Program or to a Federal Reserve Bank under the nonbank financial institution part of the Guidelines should not report under these bank Guidelines.

c. *Holding companies with more than one bank.* A multibank holding company should share the Ceiling of one or more of its banks.

d. *Consolidation of ceilings of bank subsidiaries of holding companies.* A bank subsidiary (including a bank, Edge Act Corporation, or Agreement Corporation) of a bank holding company may elect to consolidate its Ceiling with that of one or more of the holding company's other bank subsidiaries that had ceilings under the previous Guidelines. Notice of such election should be sent to the respective Federal Reserve Bank.

4. *Foreign branches and foreign subsidiaries of U.S. banks and banking institutions*

a. The Guidelines are not intended to restrict the extension of foreign credit by foreign branches, or foreign subsidiaries, of (i) U.S. banks, (ii) Edge Act

Corporations, or (iii) Agreement Corporations, except as the result of the restraints on banks, and on Edge and Agreement Corporations (and their domestic subsidiaries), with respect to foreign credit to, or foreign investment in, such foreign branches or foreign subsidiaries.

b. Claims of a bank's or banking institution's domestic offices on its foreign branches and foreign subsidiaries (including permanent capital invested in, as well as balances due from, such foreign branches and foreign subsidiaries) represent foreign assets subject to the Guidelines.

E. Conformity with objectives of Guidelines

1. *Department of Commerce program and nonbank financial institution Guidelines*

Banks should avoid making loans that would directly or indirectly enable borrowers to use funds abroad in a manner inconsistent with the Department of Commerce Foreign Direct Investment Program or with the Guidelines for nonbank financial institutions.

2. *Substitute loans*

Banks should not extend to U.S.-resident subsidiaries, or branches, of foreign companies loans that otherwise might have been made by the banks to the foreign parent or other affiliate of the company or that normally would have been obtained abroad.

3. *Management of liquid assets*

A bank should not hold its own funds abroad in liquid form for short-term investment purposes, whether such investments are payable in foreign currencies or in U.S. dollars. This is not intended to preclude its maintaining necessary working balances held with its own foreign branches or with foreign correspondents.

4. *Transactions for customers*

While recognizing that it must follow a customer's instruction, a bank should discourage customers from placing liquid funds outside the United States. A bank should not place with a customer foreign obligations that, in the absence of the Guidelines, it would have acquired or held for its own account.

5. *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 these Guidelines and, as they may be requested from time to time, to consult with the Federal Reserve Bank in the District in which they are located.

F. Reporting

Each U.S. bank, and each U.S. agency and branch of a foreign bank, that on a reporting date had $500,000 or more in foreign assets (whether or not subject to restraint under the Guidelines) should file a Monthly Report on Foreign Assets (for U.S. banks or for U.S. agencies and branches of foreign banks, as appropriate) with the Federal Reserve Bank in the District in which the institution is located within 15 days after the end of the reporting period. (Forms are available at the Federal Reserve Banks.)

III. NONBANK FINANCIAL INSTITUTIONS

A. Applicability to financial institutions

This part of the Guidelines applies to all U.S. nonbank financial institutions, including: trust companies, trust departments of commercial banks; mutual savings banks; insurance companies; investment companies; finance companies; employee retirement and pension funds; college endowment funds; charitable foundations; U.S. branches of foreign insurance companies and of other foreign nonbank financial corporations; and holding companies (other than bank holding companies) whose domestic assets consist primarily of the stock of operating nonbank financial institutions. 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.

Businesses whose principal activity is the leasing of property and equipment, and which are not owned or controlled by a financial institution, are not defined as financial institutions. Real estate investment trusts whose assets consist primarily of real property also are not covered by these Guidelines.

B. Ceiling and priorities

1. *Ceiling*

Each institution is requested to limit its aggregate holdings of foreign assets covered by the Program to no more than its Ceiling as described in Section C, except for special situations discussed in Section J, below.

2. *Liquid foreign balances*

Institutions generally are expected to hold no foreign deposits or foreign money market instruments, except such minimum working balances abroad as are needed for the efficient conduct of its foreign business activities.

3. *Developing countries*

Among the foreign assets that are subject to the Guideline Ceiling ("covered" assets), institutions are asked to give priority to credits which directly benefit the economies of developing countries.

4. *Western Europe*

Institutions are requested not to increase the total of their investments in the developed countries of continental Western Europe beyond the amount held

on December 31, 1968. Reductions through amortizations, maturities, or sales may be offset by new acquisitions in these countries. However, institutions are expected to refrain from offsetting proceeds of sales to other Americans by new acquisitions from foreigners.

5. *Conformity with objectives of Guidelines*

Institutions may invest in noncovered foreign assets generally as desired. However, they are requested to refrain from making any nonexport loans or investments, noncovered as well as covered, that appear to be inconsistent with other aspects of the U.S. balance of payments program. Among these are the following:

a. Noncovered credits under this program that substitute directly for loans that commercial banks would have made in the absence of that part of the program applicable to them.

b. Noncovered credits to developing country subsidiaries of U.S. corporations that would not have been permitted under the Department of Commerce Foreign Direct Investment Program if made by the U.S. parent directly.

c. Credits to U.S. borrowers that would enable them to make foreign loans and investments inconsistent with the Foreign Direct Investment Program.

d. 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.

C. Calculation of ceiling

The Ceiling for each nonbank financial institution will be:

1. The greater of:

a. its ceiling ("adjusted base date holdings") as of September 30, 1971 under the Guidelines then in effect ("the previous Guidelines") minus any export credits subject to restraint under the Guidelines as of that date, or

b. 85 per cent of its ceiling ("adjusted base date holdings") as of September 30, 1971;

2. Minus equity securities of companies established in developed countries (except Canada) that are included in Section C–1 but had been sold to American investors after September 30, 1971;

3. Plus, or minus, the difference between sales proceeds and "carrying" value of covered equities sold after September 30, 1971, to other than American investors or in other than U.S. markets. On each reporting date, "carrying" value should be the value reflected in the institution's report (on Form FR 393R-68) for December 31, 1967, in the case of equities held on that date, and it should be cost in the case of equities purchased after that date.

D. Covered assets — subject to ceiling

Foreign financial assets subject to the Ceiling (covered assets) include investments of the following types (but see exclusions in Section E):

1. Liquid funds in all foreign countries. This category comprises 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 one year or less.

2. All other claims on foreign obligors written, at date of acquisition, to mature in 10 years or less. This category includes bonds, notes, mortgages, loans, and other credits.

3. Net financial investment in foreign branches, subsidiaries, and affiliates located in developed countries other than Canada. Such financial investment includes payments into equity and other capital accounts of, and net loans and advances to, any foreign business in which the U.S. institution has an ownership interest of 10 per cent or more. Excluded are earnings of such a foreign business if they are directly retained in its capital accounts.

4. Long-term credits entered into after November 11, 1971 to finance the construction or operation of foreign-built vessels unless the financing involves a corresponding transfer of capital by a Direct Investor under the Foreign Direct Investment Program. Included in this category are bonds, notes, mortgages, loans, leases, and other credits. A credit is long-term if at least 10 per cent of the amount to be repaid to the lender is scheduled, at the time of acquisition, to be repaid after 10 years.

5. Long-term credits of foreign obligors established in developed countries other than Canada. (Long-term credits are as defined in paragraph 4.)

6. Equity securities (including American Depository Receipts) of foreign corporations established in developed countries other than Canada, except those acquired after September 30, 1965, in U.S. markets from American investors. Exclusion from Ceiling normally will be indicated if, in acquiring an equity security that otherwise would be covered, the purchasing institution receives a certificate of prior American ownership or brokerage confirmation thereof. Securities acquired from a broker who purchased them from a foreigner in anticipation of early resale are not deemed to be acquisitions from a prior American investor.

E. Noncovered assets — exclusions

The following foreign financial assets are excluded from the Guideline ceiling:

1. Export credits, as defined in Part IV–3. Institutions should maintain adequate information and otherwise take all reasonable measures to provide assurance that credits meet the definition before treating them as exempted.

2. All financial assets in, or claims on residents of, Canada.

3. All direct obligations of international institutions of which the United States is a member.

4. Long-term investments in all developing countries (except as noted in Section D–4), including direct investment in subsidiaries and affiliates, credit instruments of the types and maturity described in Section D–4, and all equity securities issued by firms established in these countries.

5. Equity securities of firms in developed countries other than Canada that have been acquired in U.S. markets from American investors. (See Section D–6.)

6. Foreign assets of types subject to Ceiling but acquired after December 31, 1967 as "free delivery" items—that is, acquired as gifts or, in the case of trust companies or trust departments of commercial banks, deposited with the institution in new accounts.

F. Credits to certain U. S. corporations

1. Any loan or investment acquired by a nonbank financial institution after June 30, 1968, that involves the advance of funds to a domestic corporation which is simply a financing conduit (commonly known as a "Delaware subsidiary") and which in turn will transmit the funds to a foreign business is a foreign asset if one or more foreigners own a majority of the domestic corporation. The amounts of such foreign loans or investments should be classified according to the country where the funds are actually to be used, not according to the residence of the owners of the domestic corporation.

2. If U.S. residents, other than the lending institution, hold a majority ownership interest in the domestic corporation, no part of a loan or investment in such a corporation is to be regarded as a foreign asset of the institution.

G. Leasing of physical goods

The foreign leasing activities of firms that engage primarily in the leasing of physical assets (e.g., computers, real property, ships, aircraft) and that are not owned or controlled by a U.S. financial institution are not subject to these Guidelines. However, such activities are subject to these Guidelines when they are undertaken by nonbank financial institutions.

H. Investment in certain foreign insurance ventures

Net investment in foreign insurance ventures should be reported wherever possible. If the net investment cannot be segregated, the U.S. insurance company may exclude from its foreign assets (1) investments within the foreign country involved in amounts up to 110 per cent of reserves accumulated on insurance sold to residents of that country, or (2) (if it is larger than 110 per cent of the reserves) the minimum deposit of cash or securities required as a condition of doing insurance business within that country.

I. Reporting requirement

Each nonbank financial institution holding, on any quarterly reporting date, covered assets of $500,000 or more, or total foreign financial assets of $5 million or more, should 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 may be obtained from the Federal Reserve Bank. (See also Section J–2.)

J. Covered assets in excess of ceiling

1. In view of the balance of payments objectives of the program, 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 abroad for investment in the same country or in countries that are subject to the same or more liberal Guideline restraint. Thus, funds borrowed in the developed countries of continental Western Europe may be used to finance investments in these countries and elsewhere, and funds borrowed in other developed countries (except Canada) may be used to finance investment in covered foreign assets anywhere but in the developed countries of continental Western Europe. Any institution desiring to offset foreign borrowing against foreign investment, however, should discuss its plans with the Federal Reserve Bank before entering into such an arrangement.

2. An institution with a Guideline Ceiling of less than $500,000 may hold covered assets up to this amount if its investments are consistent with Guideline restraints other than its Ceiling, namely, those with respect to liquid funds, to credits to the developed countries of continental Western Europe, and concerning possible conflict with program objectives, as noted in Section B–2, 4, and 5. The institution is expected to file an initial statement of its holdings with its Federal Reserve Bank and thereafter to file a statement with the Bank within 20 days after the end of any calendar quarter when its total holdings of covered foreign assets have changed by as much as $100,000 since its previous report even though its total holdings remain below the minimum reporting levels stipulated in the Guidelines.

IV. DEFINITIONS

The following definitions apply to both the bank and nonbank financial institution parts of the Guidelines.

1. "Claims on foreigners" are claims on foreigners held for an institution's own account. For banks, they include: foreign long-term securities; deferred payment letters of credit described in Treasury De-

partment Supplemental Reporting Instruction No. 1, Treasury Foreign Exchange Reports, Banking Forms, dated May 10, 1968; participations purchased in loans to foreigners; loans to financial conduits incorporated in the United States, 50 per cent or more owned by foreigners; and foreign assets sold, with recourse, to U.S. residents other than financial institutions participating in the Federal Reserve Foreign Credit Restraint Program or other than direct investors subject to the controls administered by the Department of Commerce. They also include foreign customers' liability for acceptances executed, whether or not the accepted drafts are held by the accepting bank. "Claims on foreigners" exclude: contingent claims; unutilized credits; claims held for account of customers; and acceptances executed by other U.S. banks.

2. "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 intergovernmental agreement irrespective of location.

3. "Export Credit" means any claim on a foreigner for the demonstrable financing (a) of the export of U.S. goods or (b) of the performance abroad of U.S. services. (Items (a) and (b) are hereinafter referred to as "exports".) To be demonstrable, the financing must relate to a specific, individual identifiable export for which shipping documents or other documents evidencing the export are obtainable.

Export credit may be direct or indirect. Direct credit is a credit that results in the direct acquisition of a debt obligation of a foreign obligor. An indirect credit is a credit extended to a foreign financial institution which, in consequence, itself acquires debt obligations of obligors resident outside the United States. For example, credit extended by a U.S. financial institution to a foreign buyer of U.S. exports directly or through a foreign financial institution may be an export credit. Also, an export credit may be extended through purchase of documented loan paper.

The cost of freight in connection with exportation, the cost of transport insurance in connection with exportation, and the cost of export credit guarantees and export credit insurance borne by the foreign buyer or the foreign financial institution may be included in the cost of export for the purpose of determining the amount of credit that is to be considered export credit.

U.S. goods are goods grown, produced, or manufactured in the United States.

U.S. services performed abroad should be services performed outside the United States by U.S. domiciled or U.S. incorporated companies or by U.S. nationals temporarily resident abroad.

A particular credit should be regarded as an export credit only if 85 per cent or more of its total amount finances U.S. exports. However, a single credit agreement exclusively for services may be broken down to exclude non-U.S. services. The export credit may thereby be identified as that portion of credit financing the performance of service by U.S. firms and U.S. nationals, as well as financing the purchase (or lease) of U.S. goods incidental to the performance of those services.

A participation in export credits should be regarded as export credit of the financial institution purchasing the participation. However, a participation in a pool of loans would not be considered export credit by the institution purchasing the participation.

A credit that is of substantially longer maturity than is customary in international export financing practice for the type of transaction in question should not be regarded as an export credit.

4. "Developing countries" are all foreign countries other than: 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; and other than: Albania, Bulgaria, the People's Republic of China, Cuba, Czechoslovakia, East Germany, Hungary, Communist-controlled Korea, Latvia, Lithuania, Outer Mongolia, Poland (including any area under its provisional administration), Romania, 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 Communist-controlled Vietnam.

5. "Developed countries of continental Western Europe" are: Austria, Belgium, Denmark, France, Federal Republic of Germany, Italy, Liechtenstein, Luxembourg, Monaco, Netherlands, Norway, Portugal, San Marino, Spain, Sweden, and Switzerland.