FR 609

Minutes for December 9, 1966

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin _____

Gov. Robertson _____

Gov. Shepardson _____

Gov. Mitchell _____

Gov. Daane _____

Gov. Maisel _____

Gov. Brimmer _____

Minutes of the Board of Governors of the Federal Reserve System on Friday, December 9, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Shepardson, Acting Chairman
Mr. Mitchell
Mr. Daane
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Holland, Adviser to the Board
Mr. Solomon, Adviser to the Board and Director, Division of International Finance
Mr. Molony, Assistant to the Board
Miss Eaton, General Assistant, Office of the Secretary
Mr. Morgan, Staff Assistant, Board Members' Offices

Messrs. Brill, Koch, Partee, Williams, Axilrod, Gramley, Bernard, Eckert, Ettin, Fry, Keir, Kelty, and Rosenblatt of the Division of Research and Statistics

Messrs. Sammons, Hersey, Katz, Baker, Gemmill, and Ruckdeschel of the Division of International Finance

Money market review. Mr. Bernard reported on the Government securities market, following which Mr. Eckert reviewed bank credit developments. Mr. Keir then reported on conditions in the capital markets. Copies of statistical tables and charts distributed in connection with today's review have been placed in the Board's files.

Following a discussion of the reports, all members of the staff except Messrs. Sherman, Kenyon, Solomon, Molony, Brill, and Sammons and Miss Eaton withdrew and the following persons entered:

Mr. Hackley, General Counsel
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. Poundstone, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on December 5, by the Federal Reserve Bank of Atlanta on December 6, and by the Federal Reserve Banks of Cleveland, Richmond, Atlanta, St. Louis, Kansas City, and Dallas on December 8, 1966, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Approved items. The following items, copies of which are attached to these minutes under the respective numbers indicated, were approved unanimously after consideration of background material that had been made available to the Board and clarification of points of information about which members of the Board inquired:

	Item No.
Letter to Bay City Bank, Bay City, Michigan, approving the establishment of an in-town branch.	1
Letter to Security First National Bank, Los Angeles, California, granting permission to organize a corporation under section 25(a) of the Federal Reserve Act to be known as Security First International Corporation, Los Angeles, and transmitting a preliminary permit.	2

Report on competitive factors. A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of National Bank & Trust Company of Central Pennsylvania, York, Pennsylvania, and The Central National Bank of Columbia, Columbia, Pennsylvania, was approved unanimously for transmittal to the Comptroller, the conclusion being stated as follows:

> While a small amount of competition exists between National Bank & Trust Company of Central Pennsylvania, York, and The Central National Bank of Columbia, Columbia, the overall effect of the proposed merger on competition would not be significantly adverse.

The meeting continued from this point with limited staff attendance.

Voluntary foreign credit restraint program (Item No. 3). Governor Brimmer stated that Chairman Martin had asked him, in the absence of Vice Chairman Robertson, to act on behalf of the Federal Reserve in connection with procedures related to the pending public announcement of revised guidelines for the voluntary foreign credit restraint program. It appeared, Governor Brimmer said, that either today or early next week the Treasury would release a letter from the President to the Secretary of the Treasury, as Chairman of the Cabinet Committee on the Balance of Payments, approving the revised program in substance. It was hoped that coincident with the issuance of the Treasury press release the Department of Commerce and the Federal Reserve Board would be prepared to issue releases relating to the respective parts of the voluntary program for which they were responsible. Accordingly, a suitable press release for issuance by the Board had been drafted.

Governor Brimmer further commented that the program guidelines for banks and for nonbank financial institutions were in the form in which they had previously been approved by the Board majority and thereafter presented by Vice Chairman Robertson to the Cabinet Committee. He then reviewed the highlights of the program guidelines for nonfinancial institutions that would be announced by the Department of Commerce, emphasizing the degree to which they had been tightened with respect to direct foreign investments.

Governor Brimmer also discussed certain items that had been suggested for inclusion in the President's Economic Message looking toward improvement in the nation's balance of payments. He mentioned that at the request of Chairman Martin he had worked with Governor Daane and members of the Board's staff in preparing a comment that was thereafter submitted to the President expressing certain reservations with respect to material that had been proposed for inclusion in the Economic Message on the subject of curtailing foreign travel by U.S. residents.

Issuance at the appropriate time of the proposed Board press release concerning the new guidelines for banks and for nonbank financial institutions was then authorized.

> Secretary's Note: The press release was issued under date of December 13, 1966. A copy of the release, with attachments, is appended to these minutes as Item No. 3.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Boston (copy attached as Item No. 4) approving the appointment of Donald L. Adams as assistant examiner.

Letter to the Federal Reserve Bank of Chicago (copy attached as Item No. 5) approving the appointment of Charles W. Elbers, Roderick L. Housenga, and Richard K. Pearson as examiners.

Memorandum from the Office of the Controller dated December 8, 1966, recommending approval of certain actual and anticipated overexpenditures in various accounts of the 1966 Board budget as described in that memorandum and the attachments thereto.

Memorandum from the Division of Research and Statistics and the Division of Administrative Services dated December 5, 1966, recommending that the Board authorize publication of 2,000 copies of a monograph entitled "The Performance of Bank Holding Companies" by Robert J. Lawrence; that the manuscript be sent out for composition; that the same printing procedure be used for two other banking markets manuscripts scheduled for publication in 1967; that distribution and pricing of the monographs be in accordance with the policy approved by the Board in June 1965; and that the Board approve any overexpenditure in the printing and binding account of the budget of the Division of Administrative Services resulting from composition costs.

Memorandum from the Division of Personnel Administration recommending the appointment of Judy C. Walker as Secretary in that Division, with basic annual salary at the rate of $5,331, effective the date of entrance upon duty.

Merritt Sherman
Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 1
12/9/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 9, 1966

Board of Directors,
Bay City Bank,
Bay City, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bay City Bank, Bay City, Michigan, of a branch at 600 Washington Avenue, Bay City, Michigan, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 2
12/9/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 9, 1966.

Mr. John H. Harriman,
Vice President and Secretary,
Security First National Bank,
Los Angeles, California.

Dear Mr. Harriman:

The Board of Governors has approved the Articles of Association and Organization Certificate dated November 11, 1966, of Security First International Corporation, Los Angeles, California, and there is enclosed a Preliminary Permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization.

Except as provided in Section 211.3(a) of Regulation K, the Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. Before the Board will issue its final permit to commence business, the President, Treasurer, or Secretary, together with at least three of the directors, must certify (1) that each director is a citizen of the United States; (2) that a majority of the shares of capital stock is held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States; and (3) that of the authorized capital stock specified in the Articles of Association at least 25 per cent has been paid in in cash and that each shareholder has individually paid in in cash at least 25 per cent of his stock subscription. Thereafter the Treasurer or Secretary shall certify to the payment of the remaining instalments as and when each is paid in, in accordance with law.

Your attention is called to the fact that Security First International Corporation will have no separate base under the voluntary foreign credit restraint effort and any foreign loans or investments will need to be made under the ceiling of Security First National Bank. Accordingly, the foregoing approval is given with the understanding that any foreign loans and investments of the Corporation, combined with those of Security First National Bank, will not cause the total of such loans and investments to exceed the guidelines established under the voluntary foreign credit restraint effort now in effect and that due consideration will be given to the priorities contained therein.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

December 9, 1966.

Preliminary Permit

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Articles of Association dated November 11, 1966, and the Organization Certificate dated November 11, 1966, of SECURITY FIRST INTERNATIONAL CORPORATION duly filed with said Board of Governors, and that SECURITY FIRST INTERNATIONAL CORPORATION is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of said Section 25(a) and the rules and regulations of the Board of Governors of the Federal Reserve System issued pursuant thereto.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

(SEAL) By (Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

FEDERAL RESERVE
press release

4528
Item No. 3
12/9/66

For release
Tuesday, December 13, 1966.

December 13, 1966.

The Board of Governors of the Federal Reserve System today issued new guidelines, effective immediately, for financial institutions cooperating with the President's voluntary program to improve the nation's balance of payments.

The new bank guidelines are in substantially the same form as those in use since 1965. The December 1964 base is retained, as is the present ceiling of 109 per cent of that base. However, banks are requested to limit the use of their leeway as of September 30, 1966, to a rate not exceeding 20 per cent thereof per quarter beginning with the fourth quarter of 1966.

Moreover, banks are requested to limit the increase in nonpriority credits (credits other than those that finance exports or which meet credit needs of developing countries) over the amount outstanding on September 30, 1966, to 10 per cent of the total possible expansion, or to about $120 million. This change is designed to give added stimulus to priority credits by suggesting a quantitative limit for nonexport credits to developed countries.

The program for nonbank financial institutions has been greatly simplified. The three guidelines used in the 1966 program are replaced by a single guideline which permits an increase of 5 per cent during the 15 months ending December 31, 1967, in assets covered by that guideline. "Covered" assets are redefined to exclude certain types of assets previously subject to target ceilings; for example, bonds of the International Bank for Reconstruction and Development and of the Inter-American Development Bank.

In announcing the new guidelines, the Board expressed its appreciation for the cooperation of banks and other financial institutions since the program was inaugurated in February 1965, as well as its confidence that the nation can continue to count on the cooperation of these institutions.

Copies of the new guidelines are attached. They are being made available to financial institutions through the Federal Reserve Banks. Banks and other financial institutions having questions concerning the application of the new guidelines are urged to consult with the Federal Reserve Bank of their district.

Attachment.

December 12, 1966.

Balance of Payments Program
Revised Guidelines for Banks and
Nonbank Financial Institutions

4530

During 1966, as in 1965, commercial banks and other financial institutions cooperated admirably in the President's voluntary foreign credit restraint program and contributed substantially toward the correction of the disequilibrium in the international payments of the United States. Foreign credits of commercial banks were actually reduced by $508 million in the first ten months of 1966, with the result that the commercial banks are under the 1966 guideline ceiling by more than $1.2 billion. Nonbank financial institutions reduced their foreign assets subject to the guidelines by $321 million in the first three quarters of this year. Total foreign investments of these institutions in this period declined by $46 million. Long-term investment in Canada and in less developed countries increased, but much less than in 1965.

Despite this record the balance of payments continues to be a serious national problem. Therefore, it is necessary to continue, and in some respects to intensify, the voluntary effort to restrain the outflow of private capital. Accordingly, the Board of Governors of the Federal Reserve System has revised the guidelines for financial institutions as set out hereinafter.

The 1967 Program for Commercial Banks

The 1967 ceiling for commercial banks will remain at 109 per cent of the 1964 base. No increase is provided in view of the fact that as of October 1, 1966, there existed a potential leeway for an outflow of bank credit in excess of $1.2 billion. However, each commercial bank is requested to limit the use of its existing leeway so that it does not use more than 40 per cent thereof before March 31, 1967, more than 60 per cent before June 30, 1967, and more than 80 per cent before September 30, 1967.

Furthermore, each bank is requested not to use more than 10 per cent of its leeway to expand nonexport credits to developed countries between October 1, 1966, and December 31, 1967. For all banks combined, this would permit a maximum expansion of nonexport credits to developed countries of about $120 million.

In order to give a relatively larger leeway to smaller banks so as to enable them more easily to extend export financing, banks with an original base between $500,000 and $10 million, in calculating their leeway, are authorized to use, instead of 109 per cent of their 1964 base, the amount of that base plus $900,000.

This revision in the guidelines, effective as of October 1, 1966, is designed to give a further stimulus to banks to direct their foreign credits toward export financing and the financing of the less developed countries.

The 1967 Program for Nonbank Financial Institutions

Substantial changes are being made in the voluntary foreign credit restraint program for nonbank financial institutions in order to simplify both reporting under the program and the guidelines with which the institutions are requested to comply. The three different guidelines used in the 1966 program are replaced with a single guideline which permits an increase of 5 per cent over the 15 months from October 1, 1966, through December 31, 1967. Covered assets are redefined to exclude certain types of assets previously subject to target ceilings.

The group of covered institutions 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. Base, Ceiling, and Reporting

A. Base

(1) The base is a bank's total claims on foreigners for own account, including foreign long-term securities, on December 31, 1964, except for the exclusions in A(3)(b) below.

(2) Meaning of terms:

(a) "Foreigners" include individuals, partnerships, and corporations domiciled outside the United States, irrespective of citizenship, except their agencies or branches 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.

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

(c) "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).

(d) "Leeway" means the difference between the ceiling for 1967 as described in B below and the amount of foreign credits outstanding on September 30, 1966.

(e) "Nonexport credit" means a foreign credit other than one that arises directly out of the financing of U.S. exports of goods or services.

(f) "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 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 Viet Nam that is dominated or controlled by international communism.

(3) Specific inclusions and exclusions:

(a) Claims on foreigners should be included without deduction of any offsets. 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 extended by the Export-Import Bank) also should be included.

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

B. Ceiling

(1) The 1967 ceiling with respect to the amount of foreign credits outstanding by a bank with a base of $10 million or more is 109 per cent of its base. In lieu of a ceiling of 109 per cent of its base, a bank with a base of $500,000 but less than $10 million, shall use as a ceiling for 1967 its base plus $900,000.

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

(a) During the fourth quarter of 1966 and the first quarter of 1967, to an amount not in excess of the amount outstanding on September 30, 1966, plus 40 per cent of the leeway.

(b) During the second quarter of 1967, to an amount not in excess of the amount outstanding on September 30, 1966, plus 60 per cent of the leeway.

(c) During the third quarter of 1967, to an amount not in excess of the amount outstanding on September 30, 1966, plus 80 per cent of the leeway.

(2) The ceiling for a bank with a base below $500,000 is 150 per cent of its base. However, any such bank, or a bank which had no foreign credits outstanding on December 31, 1964, may discuss with the Federal Reserve Bank of the Reserve district in which it is located the possibility of adopting a ceiling that would permit expansion up to $900,000 above the bank's base.

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 it should have additional leeway.

(3) Within the limitations specified in paragraphs 1 and 2, all banks are requested to limit their nonexport credits to developed countries so that the amount of such credits outstanding will not, at any time between October 1, 1966, and December 31, 1967, exceed the amount of such credits outstanding on September 30, 1966, plus 10 per cent of the leeway.

C. Reporting

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

(2) Copies of Form F.R. 391 are available at the Reserve Banks.

2. Loans Involving Export-Import Bank

Loans guaranteed or arranged 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 manner inconsistent with the program if it at times exceeds its ceiling as a result of the (a) drawdown of binding commitments entered into before December 12, 1966; or (b) extension of bona fide export credits.

The bank should, however, 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 less developed countries and should avoid restrictive policies that would place an undue burden on Canada, Japan, and the United Kingdom.

It is expected that the outstanding amount of nonexport credits to developed countries in Continental Western Europe will not be increased during 1967 unless a bank is in a position to meet all bona fide requests for priority credits within the overall ceiling.

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. <u>"Edge Act" Corporations</u>

"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.

An "Edge Act" corporation established before February 10, 1965, that had not made any significant volume of loans and investments before December 31, 1964, may take as a base, alone and not in combination with its parent, its paid-in capital and surplus, up to $2.5 million.

9. <u>U.S. Branches and Agencies of Foreign Banks</u>

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 may be detrimental to the President's balance of payments program and hence should be avoided. Examples are:

A. Loans to U.S companies which 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 which otherwise might have been made by the bank to the foreign parent or other foreign affiliate of the company, or which 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

For calendar 1967, each institution is requested to limit its aggregate holdings of "covered" foreign financial assets to not more than 105 per cent of its "base date" holdings. Thus there is only one guideline applicable to all "covered" foreign assets, rather than the three different guidelines used in the 1966 program. Covered foreign assets are defined below.

"Base date" holdings, on which the 105 per cent ceiling is based, are defined as the lesser of (1) total holdings of covered foreign assets as of September 30, 1966, or (2) 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. Base date holdings are to be reduced in subsequent quarters, however, to the extent that equity securities of companies domiciled in developed countries1/ (except Canada and Japan), and included in the current base, are sold to American investors. For institutions previously reporting under the program, the Federal Reserve Banks will calculate current base date holdings as indicated by the reports on file and communicate that calculation to the institutions.

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 arranged by the Export-Import Bank or insured by the Foreign Credit Insurance Association.

3. Net financial investment in foreign branches, financial subsidiaries and affiliates, located in developed countries[1/] other than Canada and Japan. 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[1/] other than Canada and Japan.

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[1/] other than Canada and Japan except for 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 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.

In making those foreign loans and investments subject to the guideline ceiling, institutions are asked to observe certain priorities. First, top priority should be given to credits which represent the bona fide financing of U.S. exports. Second, nonexport credits and investments in less developed countries should be given priority second only to that for export financing. (Temporary excesses above the guideline ceiling may be permitted, where necessary, in order to accommodate these two types of priority credits.) Third, investment in shorter-term assets in Canada and Japan (aside from bank deposits and money market instruments) need be limited only to the extent necessary to remain within the overall guideline ceiling.

Within the leeway provided by the 105 per cent ceiling, however, institutions also are requested to observe the following limitations. First, 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. Second, investments in assets of all types in the developed countries of Continental Western Europe, except those directly financing U.S. exports, should be limited to the fullest practicable extent, and in any event should not be permitted to exceed the total of such assets held on September 30, 1966.

Each nonbank financial institution holding $500,000 or more in foreign financial assets is requested to file a quarterly statistical report covering such assets with the Federal Reserve Bank of the 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.

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 non-covered foreign investments include the following:

1. Bonds and notes of international institutions of which the U.S. is a member, regardless of maturity.
2. Long-term investments in Canada, Japan and all less developed countries, including credit instruments with final maturities of more than 10 years at date of acquisition, direct investment in

 4546

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).

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) non-covered credits under this program which 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 which 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.

1/ Developed countries other than Canada and Japan. Continental Western Europe includes: 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 Viet Nam that is dominated or controlled by international communism.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 4
12/9/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 12, 1966

Mr. Luther M. Hoyle, Jr., Vice President,
Federal Reserve Bank of Boston,
Boston, Massachusetts. 02106

Dear Mr. Hoyle:

In accordance with the request contained in your letter of December 6, 1966, the Board approves the appointment of Donald L. Adams as an assistant examiner for the Federal Reserve Bank of Boston. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 5
12/9/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 9, 1966

Mr. Leland M. Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Ross:

In accordance with the requests contained in your letters of December 5, 1966, the Board approves the appointments of Charles W. Elbers, Roderick L. Housenga, and Richard K. Pearson, at present assistant examiners, as examiners for the Federal Reserve Bank of Chicago, effective January 9, 1967.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.