at 5627B

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK 45, N.Y.

RECTOR 2-5700

March 15, 1965

To the Institution Addressed:

On March 3, Chairman Martin set forth the guidelines proposed by the Federal Reserve System for 1965 on the foreign lending and investing activities of financial institutions other than commercial banks. This program of voluntary restraint in institutional lending abroad, in combination with the limitation suggested on commercial bank credit extension to foreign borrowers, constitutes a vital part of the national effort proposed by the President to improve our balance of payments program. Enclosed, for your reference, is an additional copy of our Circular No. 5627, which contains the press release of the Board of Governors on the implementation of the program with respect to nonbank financial institutions, the text of the letter from Chairman Martin, and the guidelines.

I am writing to amplify some aspects of this voluntary credit restraint program, and to request statistical information regarding the extent of your institution's foreign investment holdings, if any. As to the program, you will note that no guideline is proposed on credits (including corporate stock) with maturities over 5 years. The aggregate volume of such credit going abroad would seem to have been effectively curtailed by application of the Interest Equalization Tax, so that no voluntary restriction of such credit by investors seems necessary or appropriate as of now. The situation will bear watching, of course, and our intention is to set up a simple periodic survey covering both short-term and long-term foreign credits beginning with the first quarter of 1965.

Under the voluntary program, there is no intent to restrict the reinvestment of funds received from ordinary business operations abroad. Investments representing reserves on insurance policies sold abroad are specifically excluded from the program's coverage, as will be any other similar investments required by the nature of foreign operations, when and if they are brought to our attention.

Individual institutional restraint in lending is sought principally on loans, investments and other credits carrying final maturities of 5 years or less. The suggested 5 per cent ceiling on growth in such holdings this year is comparable to that requested of the commercial banks, and is needed on the grounds of equity among financial institutions as well as to help guard against a shifting of credit demands from banks to other lenders. In addition, we are proposing that holdings of foreign deposits and money market instruments be limited to no more than the 1964 year-end amounts, and that a gradual reduction to the 1963 year-end level should be accomplished over the remainder of this year. Care should be taken, however, to avoid repatriating liquid funds so rapidly that the foreign markets in which they are invested become unduly constricted.

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The purpose of this program is to improve our balance of payments, but other national objectives should also be kept in mind. It seems clear that credit tied directly to the financing of U.S. exports should be accommodated to the extent possible under the guidelines, since exports also enter into the balance of payments. Also, priority should be given to the sound and potentially productive credit needs of less developed countries, in view of our national objective of facilitating the economic growth and development of such nations. Finally, care should be taken to avoid restrictive policies that would place an undue burden on Canada and Japan, which are heavily dependent upon U.S. financial markets, and on the United Kingdom, which is suffering from balance of payments difficulties.

The guidelines that we propose are tentative (though they should be regarded as effective until further notice) mainly because we have only limited information regarding the extent and character of the foreign credits held by institutional lenders. For this reason, I am enclosing two copies of a statistical form designed to provide us with bench-mark information on your foreign investments at the ends of 1963 and 1964. Most institutions will hold only a few of the classes of investments included in the questionnaire, and some probably will have none. In any event, however, we would appreciate your completing the form and returning one copy to this Federal Reserve Bank on or before March 26, 1965. Any information concerning the position of individual institutions will be held in strict confidence, for the use only of this Bank and of the Federal agencies involved in the President's balance of payments program.

If you have any questions or comments regarding the program, please contact our Foreign Department (Telephone Extension 1000) which is in charge of its administration at this Bank. Questions regarding the statistical form should be directed to our Balance of Payments Division (Telephone Extension 2000). We sincerely trust that we can count on you for your cooperation in this matter. Substantial improvement in the balance of payments is essential to the continued strength of the United States in international, economic and financial affairs.

Very truly yours,

William F. Treiber

William F. Treiber
First Vice President

Enclosures

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INSTRUCTIONS

Statistical Questionnaire on Foreign Assets of U.S. Nonbank Financial Institutions and Nonprofit Organizations

Introduction

The information requested on this statistical questionnaire is needed by the Federal Reserve System for the purpose of administering, at the request of the President of the United States, a voluntary program of restraint in foreign lending and investing to improve the U.S. balance of international payments. Data from the reports of individual institutions will be held in strict confidence among those Federal agencies involved in the President's balance-of-payments program.

Procedure

The questionnaire should be completed and returned by March 26, 1965 to the Balance of Payments Division, Federal Reserve Bank of New York, New York, N. Y. 10045. Questions encountered in completing the questionnaire may be addressed to the Balance of Payments Division. Institutions having no foreign assets should note this fact on the questionnaire and return it.

Coverage

The questionnaire is intended to cover all foreign assets held by the reporting institution as of the end of 1963 and the end of 1964. Foreign assets should be reported gross, without deduction of any offsets, except that item IB is to be reported net.

A U.S. institution that has foreign branches or affiliates (as defined below) should report only the foreign assets of the U.S. parent institution. It should not report the foreign assets of its foreign branches or affiliates, but should report, under item I, its own investment in such branches and affiliates.

Valuation and Estimation

Foreign assets should be valued in the same way as on the books of the reporting institution. Assets carried on the institution's books in terms of foreign currencies should be converted into U.S. dollars at the exchange rates prevailing on the date for which the assets are reported.

Where it is impracticable to provide accounting data, estimates should be used and this fact should be noted.

Definitions

For purposes of this questionnaire, the following definitions apply:

"Foreign assets" include assets in, or claims on residents of, all countries other than the United States; foreign assets also include claims on international institutions. The United States includes Puerto Rico, American Samoa, the Canal Zone, Guam, Midway Island, Virgin Islands, and Wake Island.

"Foreign branches and affiliates" are foreign enterprises in which the reporting U.S. institution holds 10 per cent or more of the equity ownership.

"Maturity" is measured to the date of final repayment in the case of contractual obligations that fall due in instalments. Obligations payable on demand are classified as "short-term." Common and preferred stocks are classified as "long-term."

"Deposits" include both demand and time deposits (including negotiable certificates of deposit) held with foreign banks, foreign branches of U.S. banks, and other depositary institutions.

"Money market instruments" include short-term securities of foreign governments and their instrumentalities, foreign commercial paper, foreign finance company paper, foreign bankers' acceptances, and all other negotiable instruments (except certificates of deposit and paper accepted by a U.S. bank or corporation) issued by foreign obligors and maturing in one year or less.

"Other developed countries" are: Australia, Austria, Belgium, Denmark, France, Germany (Federal Republic), Hong Kong, Italy, Liechtenstein, Luxembourg, Monaco, Netherlands, New Zealand, Norway, Republic of South Africa, San Marino, Spain, Sweden, Switzerland, and the United Kingdom.

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(Please fill in and return to Balance of Payments Division by March 26, 1965—See Instructions on reverse side)

(Name of Reporting Institution)

(Reporting Official)

FEDERAL RESERVE BANK OF NEW YORK

Statistical Questionnaire

President's Balance of Payments Program, March 1965

Foreign Assets of U.S. Nonbank Financial Institutions and Non-Profit Organizations

(In thousands of dollars)

	December 31, 1963					*December 31, 1964*				
	Canada	*Japan*	*Other Developed Countries*[1]	*Other Countries*[2]	*Total*	*Canada*	*Japan*	*Other Developed Countries*[1]	*Other Countries*[2]	*Total*
I. *Investment in foreign branches and affiliates:*										
A. Permanent capital										
B. Net loans and advances										
Total										
II. *Other foreign assets:*										
A. *Short-term assets* (with original maturities of one year or less):										
1. Deposits in U.S. dollars ...										
2. Deposits in foreign currencies										
3. Money market instruments.										
4. Loans and mortgages										
5. Other short-term assets ...										
Total short-term assets ..										
B. *Medium-term assets* (with original maturities of more than one year but not more than 5 years):										
1. Deposits										
2. Loans and mortgages										
3. Bonds										
4. Other medium-term assets..										
Total medium-term assets										
C. *Long-term assets* (with original maturities of more than five years):										
1. Deposits										
2. Mortgages										
3. Other loans										
4. Bonds										
5. Stocks										
6. Other long-term assets										
Total long-term assets ...										
III. *Grand total of foreign assets listed above*										

[1] Listed in instructions. [2] Including international institutions.

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5. Other short-term assets										
Total short-term assets ..										
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1. Deposits										
2. Loans and mortgages										
3. Bonds										
4. Other medium-term assets..										
Total medium-term assets										
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1. Deposits										
2. Mortgages										
3. Other loans										
4. Bonds										
5. Stocks										
6. Other long-term assets										
Total long-term assets ...										
III. *Grand total of foreign assets listed above*										

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