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FEDERAL RESERVE BANK OF NEW YORK

NEW YORK 45, N.Y.

RECTOR 2-5700

March 30, 1965

In connection with the voluntary program of restraint in foreign lending and investing, the Federal Reserve System has been in contact with about 750 financial institutions other than commercial banks. Such nonbank financial lenders include pension funds, charitable trusts and foundations and college endowments, as well as insurance companies, mutual funds, finance companies and the like. Each of the institutions on our lists has received a statistical questionnaire designed to reveal the extent and character of its foreign investments; your trust department may have received requests from customers to fill in the questionnaire for some of these funds; and you have received, for your information, copies of our letter of March 12 to the institutions in this District.

Our direct mailing, however, has covered only the very largest institutions in each field--for example, the largest 100 noninsured corporate pension funds. Because of the limited extent of these contacts, it is apparent that there are a great many investment funds that may not have been informed about the voluntary credit restraint program. Therefore, I am enclosing 10 copies 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, Chairman Martin's letter of March 3 to such

institutions and the guidelines, and 10 copies of excerpts from our letter of March 12 to the institutions amplifying some aspects of these guidelines, for the use and guidance of your trust department officers. We would appreciate your bringing the program to the attention of larger trust customers--corporate, institutional and personal--with a view to obtaining permission, where necessary, to abide by the guidelines in your investment activities on their behalf.

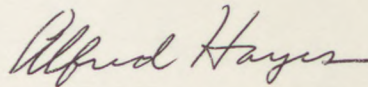
It would be very helpful also to have some information on the aggregate totals of foreign investments held in trust for your customers. For this reason, I am enclosing two copies of a questionnaire on foreign assets held by trust departments of commercial banks, with the request that your trust department complete and return the form to this Bank by April 15. The questionnaire has several supplementary instructions not contained in the form sent to nonbank financial institutions. They are as follows:

1. The information reported is to be for all trust accounts, regardless of degree of investment discretion. Please exclude custody and agency account holdings.
2. Trust departments will not normally be expected to have anything to report under Section I (investment in foreign branches and affiliates).
3. Book value (original or amortized cost) is the preferred method of valuation of reported assets, but market values will be acceptable if this is the way in which your records on aggregate holdings are kept. In that event, please indicate in a footnote that market values have been used.
4. If data for 1963 year-end holdings are not reasonably available, they need not be reported. Estimates would be helpful, however, if there is any basis for making them.

If you have any questions about the reporting form, please contact our Balance of Payments Division (Telephone Extension 2000). Any suggestions or problems relating to the voluntary program should be directed to our Foreign Department (Telephone Extension 1000), which is in charge of its administration

at this Bank. I sincerely trust that we can count on your full 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,

A handwritten signature in cursive script that reads "Alfred Hayes". The signature is written in dark ink and is positioned centrally below the closing phrase.

Alfred Hayes
President

Enclosures

EXCERPTS FROM LETTER TO NONBANK FINANCIAL INSTITUTIONS
AMPLIFYING GUIDELINES ON FOREIGN LENDING AND INVESTING - MARCH 12, 1965

"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 by individual 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- 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.

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."

INSTRUCTIONS

Statistical Questionnaire on Foreign Assets Held by Trust Departments of Commercial Banks

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 April 15, 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 for all trust accounts as of the end of 1963 and the end of 1964. If the data for 1963 year-end holdings are not reasonably available, they need not be reported. Estimates would be helpful, however, if there is any basis for making them. Foreign assets should be reported gross, without deduction of any offsets, except that item IB is to be reported net. Please exclude custody and agency account holdings.

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. Trust departments will not normally be expected to have anything to report under item I.

Valuation and Estimation

Book value (original or amortized) cost is the preferred method of valuation of reported assets, but market value will be acceptable if this is the way in which records on aggregate holdings are kept. In that event, please indicate in a footnote that market values have been used.

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 even though located in the United States. 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.

"Original 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 depository 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.

(Please fill in and return to Balance of Payments Division by April 15, 1965—See Instructions on reverse side)

(Name of Reporting Institution)

(Reporting Official)

FEDERAL RESERVE BANK OF NEW YORK

Statistical Questionnaire B.P. 10

President's Balance of Payments Program, April 1965

Foreign Assets Held by Trust Departments of Commercial Banks

(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.