FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5669
June 21, 1965]

Revised Guidelines on Foreign Lending and Investing for U. S. Nonbank Financial Institutions

To All Banks and Other Financial Institutions in the Second Federal Reserve District:

This circular sets forth revised guidelines on foreign lending and investing for U. S. nonbank financial institutions, issued today pursuant to the President's balance-of-payments program by the Federal Reserve System, together with the introductory statement accompanying their issuance. The revised guidelines supersede the tentative guidelines set forth in our Circular No. 5627, dated March 4, 1965. Following is the text of the statement and of the revised guidelines:

As an important part of the President's program to improve the balance-of-payments position of the United States, announced in February 1965, American businesses and financial institutions have been asked to reduce voluntarily their foreign lending and investment activities. In furtherance of this program, the guidelines on foreign lending and investment for financial institutions other than commercial banks are hereby revised.

Included among the types of financial institutions to which the guidelines are applicable are life, fire, and casualty insurance companies; corporate noninsured pension funds and State-local retirement systems; mutual savings banks, mutual funds, and investment companies; consumer, sales, and commercial finance companies; and college endowment funds and charitable foundations. Trust companies and trust departments of commercial banks are expected to observe the guidelines wherever possible in the investment of funds entrusted to them or for which they serve as investment advisor. Investment underwriting firms, security brokers and dealers, and investment counseling firms, although they may not directly hold assets subject to the guidelines, are requested to inform customers of the program and enlist their support in following the guidelines recommended.

Any nonbank financial institution holding $500,000 or more in foreign loans, investments, or other foreign financial assets is requested to file a statistical report at the close of each calendar quarter with the Federal Reserve Bank in its District. Such reports are to be filed covering assets held as of June 30, and for any subsequent quarter in which holdings exceed $500,000. Lending institutions not receiving copies of the reporting form by June 30 may obtain them from the Federal Reserve Banks.

Specific Guidelines

1. *Investment of liquid funds abroad should not be increased; if holdings as of the ends of 1963 or 1964 are currently exceeded, such investment should be reduced in a gradual and orderly manner to the lesser of these totals.*

This category includes all deposits held with foreign banks or foreign branches of U. S. banks, whether denominated in U. S. dollars or a foreign currency and regardless of maturity. It also includes all liquid money market claims on foreign obligors written with an original maturity of one year or less, whether such claims are denominated in U. S. dollars or a foreign currency. The term "liquid money market claims" is interpreted broadly to include the securities of governments and their instrumentalities, commercial paper, finance company paper, bankers' acceptances, and other readily marketable paper. This guideline is not intended to restrict the holdings of working balances needed in the ordinary conduct of business abroad. Neither is it applicable to short-term business credits that are not readily marketable (covered under Guideline No. 2).

2. *Investments and credits maturing in 10 years or less at date of acquisition, including short-term credits that are not "liquid money market claims" classified under Guideline No. 1 above, should not be increased by more than 5 per cent during 1965 from end-of-1964 levels.*

This category includes all bonds, notes, mortgages, loans, and other credits carrying maturities at date of acquisition of 10 years or less. The date of final maturity is to be taken in classifying individual credit transactions, except that a credit transaction should not be classified as "long-term" (and hence subject to Guideline No. 3 below) unless 10 per cent or more of the amount to be repaid is scheduled to be repaid after 10 years. Loans guaranteed or arranged by the Export-Import Bank or insured by the Foreign Credit Insurance Association are not to be considered foreign credits for purposes of this program.

Net financial investment in foreign branches and financial subsidiaries and affiliates, if any, should be included among the assets subject to the 5 per cent expansion ceiling under Guideline No. 2. Such financial investment includes payments into equity and other permanent capital accounts of, and net loans and advances to, foreign corporations engaged principally in financial or real estate activities, in which the institution has an ownership interest of 10 per cent or more. Earnings of a foreign affiliate that are

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reinvested in the business are not to be included under the guideline target, although institutions are requested to repatriate such earnings to the fullest extent feasible.

In administering restraint in foreign lending and investing, institutions are requested to observe the following priorities or guides: (1) credits and investments that represent bona fide U. S. export financing should receive absolute priority; (2) nonexport credits and investments in the less-developed countries are to be given priority consideration second only to bona fide export financing; (3) the flow of investment funds to Canada and Japan, which are heavily dependent on U. S. capital markets, need be restricted only to the extent necessary to remain under the guideline target; (4) unduly restrictive policies should be avoided with regard to credits and investments in the United Kingdom, which has balance-of-payments problems; (5) nonexport credits and investments in other developed countries (see list below) should ordinarily not be made until acceptable investments under the first four priorities have been accommodated, and then only within the 5 per cent ceiling for overall expansion under this guideline.

It is recognized that some individual institutions may temporarily exceed the guideline target, because of investments made under the first two priorities above, or the taking down of firm prior commitments to lend or invest, or normal seasonal fluctuations. In any case, an institution that exceeds its target should consult with the Federal Reserve Bank in its District regarding a program for moving back within the ceiling in a reasonable period of time.

3. *Long-term credits (exceeding 10 years in maturity) and stock investments in foreign companies are not subject to an aggregate target.*

This category includes bonds, notes, mortgages, loans, and other credits maturing more than 10 years after date of acquisition, as well as preferred and common stocks. (Loans and investment in subsidiaries and affiliates, however, are covered by Guideline No. 2.) Term loans and serial-payment notes and bonds are to be included in this category if 10 per cent or more of the total amount of the credit is scheduled for repayment to the lender after 10 years beyond date of acquisition.

No percentage ceiling is suggested on long-term credits and investments in the priority categories relating to export financing, to less-developed countries, and to Canada, Japan, and the United Kingdom described under Guideline No. 2 above. On credits and investments in the fifth priority category, however, lending institutions are requested to exercise substantial restraint, and normally would be expected to avoid any increase in the total of such holdings.

The attention of lending institutions is directed to the need to refrain from making loans and investments inconsistent with the President's balance-of-payments program. Among these are the following: (1) long-term credits covered by Guideline No. 3 which substitute for loans that commercial banks would have made in the absence of the voluntary foreign credit restraint effort administered by the Federal Reserve System; (2) credits to U. S. borrowers which would aid in making new foreign loans or investments inconsistent with the voluntary restraint program administered by the Department of Commerce; (3) credits to U. S. subsidiaries and branches of foreign companies which otherwise might have been made to the foreign parent, or which would substitute for funds normally obtained from foreign sources; (4) credits to U. S. companies with foreign activities which would take the place of funds normally obtained abroad. Reasonable efforts should be made to avoid accommodating credit requests of these types, regardless of specific guideline targets detailed in this circular.

Notes. None of the guidelines in this circular are intended to apply to the reinvestment of reserves on insurance policies sold abroad in assets within the country involved, in amounts up to 110 per cent of such reserves.

Developed countries other than Canada, Japan, and the United Kingdom are: Australia, Austria, the Bahamas, Belgium, Bermuda, Denmark, France, Germany (Federal Republic), Hong Kong, Ireland, Italy, Kuwait, Liechtenstein, Luxembourg, Monaco, Netherlands, New Zealand, Norway, Portugal, Republic of South Africa, San Marino, Spain, Sweden, and Switzerland. 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 which is dominated or controlled by International Communism.

A report form for use by nonbank financial institutions holding $500,000 or more in foreign loans, investments, or other foreign financial assets is in the process of being cleared with the Bureau of the Budget. When clearance is completed, we will send copies to the institutions concerned.

If you have any questions or comments regarding the revised guidelines, please contact our Foreign Department (Telephone Extension 1000).

Additional copies of this circular will be furnished upon request.

Alfred Hayes,
President.