FEDERAL RESERVE BANK OF NEW YORK

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

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

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

The Board of Governors of the Federal Reserve System today issued revised guidelines, effective immediately, for restraint of foreign credits by banks and other financial institutions.

The revised guidelines continue the President's program, announced on January 1, 1968, to strengthen the U. S. balance of payments. In general, the program for 1969 for financial institutions is the same as that for 1968.

The ceiling on foreign credit extensions by banks remains at the level specified in the January 1, 1968 guidelines, *as adjusted.* For about one-half of the reporting banks, accounting for more than 90 per cent of the aggregate ceiling, this is *essentially* 103 per cent of the 1964 base. For the remainder of the reporting banks the ceiling will continue to be the 1967 ceiling plus one-third of the difference between that amount and 2 per cent of total assets as of December 31, 1966.

Banks are requested to continue to refrain from making new term loans, except to finance U. S. exports, to residents of developed countries of continental Western Europe, and to continue to reduce their ceiling each month by the amount of repayment of such loans outstanding on December 31, 1967. However, under the revised guidelines banks would not be precluded from making equity investments in those countries, subject to their ceilings and to Board requirements.

Banks also are asked to hold short-term credits to residents of developed countries of continental Western Europe to the level requested in the January 1, 1968 guidelines, that is, 60 per cent of the amount of such credits outstanding on December 31, 1967.

The definition of covered assets for nonbank financial institutions is unchanged, and the ceiling remains at 95 per cent of the adjusted end-of-1967 base. Institutions that have not succeeded in reducing their holdings of covered assets by at least 5 per cent during 1968 are asked to accomplish this reduction during 1969.

Governor Andrew F. Brimmer, the Board member charged with the responsibility for the administration of the program, pointed out that as of October 31, 1968, the banks had reduced their holdings of covered foreign assets by $633 million since December 31, 1967, as compared with a suggested reduction for the entire year of $400 million. As a result of this reduction, the banks on October 31 were more than $500 million below the ceiling effective on that date. Governor Brimmer said that the ceiling would be reduced by approximately $100 million during the last two months of the year by deductions related to repayments of credits to developed countries of continental Western Europe. There is usually a seasonal outflow of bank credit during the fourth quarter, but Governor Brimmer said he is confident that the banks will exceed the objective requested in the guidelines for January 1, 1968.

In considering the foreign credit restraint program, the Board concluded that the balance of payments prospects for 1969 do not permit any basic change in the program for restraint on foreign lending by U. S. financial institutions. However, in view of the importance of increasing receipts on current account, the Board indicated its intention to review the program early in 1969 to determine whether additional flexibility for financing U. S. exports might be provided in the guidelines.

Nonbank financial institutions reporting under the program reduced their holdings of foreign assets subject to the target ceiling by $192 million during the first nine months of the year, but $73 million of this amount represented sales of covered equities to other American investors. Nevertheless, covered assets held by these institutions as a group on September 30, 1968, were only 92 per cent of their adjusted base-date holdings, or less than the 95 per cent ratio targeted for year-end.

Copies of the revised 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 revised guidelines are urged to consult with the Federal Reserve Bank of their district.

The text of the new guidelines is printed on the following pages.

Our Foreign Department (Telephone Extension 163 or 8051) will be pleased to confer with you on any questions regarding the guidelines. Questions on the reports to be filed under the guidelines should be addressed to our Balance of Payments Division (Telephone Extension 8035 or 8034).

Additional copies of this circular will be furnished upon request.

Alfred Hayes,
President.

REVISED GUIDELINES
FOR BANKS AND NONBANK FINANCIAL INSTITUTIONS

On January 1, 1968, a new program to reduce the deficit in the nation's balance of payments was announced by the President of the United States. An integral part of that program was the reduction during 1968 by at least $500 million of foreign claims held by financial institutions.

It appears at this time that this objective will be met. It has been determined, however, that restraint of capital outflow, both public and private, will continue to be required in 1969. Accordingly, the Board of Governors has revised the guidelines for banks and other financial institutions as follows:

The Revised 1969 Program for Commercial Banks

The basic 1969 ceiling for each bank reporting on December 31, 1968, will be the bank's ceiling as of that date calculated in accordance with the guidelines issued on January 1, 1968.

All banks are requested to continue to make no new term loans (loans with original maturities of more than one year) to residents of developed countries of continental Western Europe except to finance exports of U.S. goods and services. However, this provision does not apply to equity investments in those countries. Each bank will continue to reduce its ceiling on each reporting date by the amount of repayments during the preceding month of term loans to Western Europe outstanding on December 31, 1967.

All banks also are asked to hold the amount of short-term credit outstanding (loans with maturities of 1 year or less) to residents of developed countries of continental Western Europe to an amount not more than the limit that the banks were requested to observe under the 1968 program; that is, 60 per cent of the amount of such credits outstanding on December 31, 1967.

These revisions in the guidelines are intended to forestall any large outflow of bank capital during 1969 by maintaining banks' foreign assets at about the level planned for 1968.

The Revised 1969 Program for Nonbank Financial Institutions

The 1969 program for nonbank financial institutions is identical in all substantive respects with the program in effect during 1968. The definition of covered assets is unchanged, but the treatment of leased property is clarified. The target ceiling remains at 95 per cent of the adjusted end-of-1967 base. Institutions that did not reduce their holdings of covered assets by at least 5 per cent during 1968 will be expected to increase their efforts to accomplish such a reduction during 1969.

Guidelines for Banks

1. Ceiling and reporting

A. *Meaning of terms*

(1) "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 treaty, irrespective of location.

(2) "Foreign long-term securities" are those issued without a contractual maturity or with an original maturity of more than 1 year from the date of issuance.

(3) "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).

(4) "Nonexport credit" means a foreign credit other than one that arises directly out of the financing of exports of U.S. goods or services or that is reasonably necessary for the financing of such exports.

(5) "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: Albania, Bulgaria, the People's Republic of China, Cuba, Czechoslovakia, Estonia, Hungary, Communist-controlled Korea, 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 that are under the provisional administration of the Union of Soviet Socialist Republics, and Communist-controlled Vietnam.

B. *Specific inclusions and exclusions in calculating the ceiling*

(1) The following items should be included: claims on foreigners without deduction of any offsetting liabilities to foreigners; foreign long-term securities held for banks' own account; foreign customers' liability for acceptances held by the reporting banks; *deferred payment letters of credit described in Treasury Foreign Exchange Reports, Banking Forms, Supplementary Reporting Instructions No. 1, dated May 10, 1968;* participations purchased in loans to foreigners except loans to finance U.S. exports guaranteed or participated in by the Export-Import Bank or the Department of Defense, or insured by the Foreign Credit Insurance Association; and foreign assets sold to U.S. residents, including the Export-Import Bank, with recourse.

(2) Contingent claims, unutilized credits, claims held for account of customers, acceptances executed by other U.S. banks, loans to finance U.S. exports guaranteed or participated in by the Export-Import Bank or the Department of Defense, or insured by the Foreign Credit Insurance Association, and claims on residents of Canada, should be excluded.

C. *Ceiling*

(1) Foreign credits included in the ceiling ("covered assets") are a bank's total claims on foreigners held for own account, with the specific inclusions and exclusions set forth in Section B above. The basic 1969 ceiling for a bank reporting on December 31, 1968, is its ceiling calculated in accordance with the guidelines issued January 1, 1968.

(2) All banks are requested to continue to refrain from making new term loans (those with original maturities of more than 1 year) to residents of developed countries of continental Western Europe, or relending amounts received in repayment of such loans, except to make bona fide export credits. The ceiling of each bank receiving repayments on term loans to such residents outstanding on December 31, 1967, will be adjusted monthly by deducting therefrom the dollar amount of those repayments. Equity investments in developed countries of continental Western Europe may be made within the overall ceiling, subject to requirements of the Board of Governors.

(3) All banks are requested further to hold the amount of outstanding short-term credits (credits with original maturities of 1 year or less) to residents of developed countries of continental Western Europe to the level requested by the guidelines issued on January 1, 1968, that is, 60 per cent of the amount of such credits outstanding on December 31, 1967.

(4) Any bank that sells a covered foreign asset to a U.S. resident other than a bank participating in the program, including the Export-Import Bank, without recourse should reduce its ceiling by an equivalent amount.

(5) A bank that had no ceiling in 1968, or that had foreign assets of $500,000 or less on October 31, 1967, may discuss with the Federal Reserve Bank of the Federal Reserve district in which it is located the possibility of adopting a special ceiling adequate to permit the bank to meet reasonable priority credit demands of existing customers or originating in its normal trade area.

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 that it should engage in foreign transactions.

D. *Reporting*

(1) Banks that report on Treasury Foreign Exchange Forms B-2 or B-3, or that have been granted special ceilings under provisions of these guidelines, should file a Monthly Report on Foreign Claims (Form F.R. 391/69) with the Federal Reserve Bank of the Federal Reserve district in which the bank is located.

(2) Copies of Form F.R. 391/69 are available at the Federal Reserve Banks.

2. Exclusions from the ceilings

Loans to finance U.S. exports guaranteed or participated in by the Export-Import Bank or the Department of Defense, or insured by the Foreign Credit Insurance Association, are excluded from the ceiling. The role of Government lending abroad within the framework of the President's program is coordinated by the National Advisory Council for International Monetary and Financial Policies.

Also excluded are claims on Canadian residents.

3. Credits in excess of ceiling

A bank would not be considered as acting in a manner inconsistent with the program if it temporarily exceeded its ceiling as a result of the extension of bona fide export credits.

The bank should, however, refrain from making new extensions of nonpriority credits so as to 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 the 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 developing countries and should avoid restrictive policies that would place an undue burden on Japan or the United Kingdom.

A bank whose 1969 ceiling is larger than its ceiling for 1967 will be expected to restrict the use of any excess over its 1967 ceiling to priority credits (that is, export credits and credits to developing countries) originating among the bank's regular customers or residents of its trade territory. That is, subject to the limitations set forth in Guideline 1C(1), holdings of foreign credits on any reporting date should not exceed the 1967 ceiling by more than the increase in holdings of priority credits between December 31, 1967, and the reporting date.

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 is obliged to follow a customer's instructions, it should to the extent possible discourage customers from placing liquid funds outside the United States, except in Canada. 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. "Edge Act" corporations

"Edge Act" and "Agreement" corporations are included in the foreign credit restraint program. Corporations that chose to adopt a separate ceiling under the provisions of Guideline No. 11 issued in February 1965 may continue to report separately from their parent banks or may combine foreign loans and investments with those of their parent banks for purposes of the program. No special ceilings are provided for Edge Act or Agreement corporations formed since February 1965.

Edge Act or Agreement corporations owned by a bank holding company may combine foreign loans and investments with any one or all of the banks in the holding company group for purposes of the program.

9. Bank holding companies

Registered bank holding companies will be treated as banks for the purposes of these guidelines. Banks in which controlling interest is held by a corporation other than a registered bank holding company will continue to be treated as banks for these purposes.

Registered bank holding companies may combine the ceilings and foreign loans and investments outstanding of one or more of the banks in the holding company group.

Any company formed after December 23, 1968, for the purpose of acquiring controlling interest in a commercial bank will be treated as a bank for the purpose of this program, and foreign assets acquired by the company or any of its subsidiaries, including the bank, will be counted against the existing ceiling of the acquired bank.

10. 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 the domestic commercial bank voluntary credit restraint program.

11. 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, individual as well as corporate, may be detrimental to the President's balance of payments program and hence should be avoided. Examples are:

(A) Loans to U.S. residents — individuals as well as corporations — that 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 that otherwise might have been made by the bank to the foreign parent or other foreign affiliate of the company or that normally would have been obtained abroad.

12. 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, apply to investments in Canada, nor does it call for a reduction in necessary working balances held with foreign correspondents.

Guidelines for Nonbank Financial Institutions

Nonbank financial institutions

The group of institutions covered by the nonbank guidelines includes: 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; and 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. 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.

Ceiling and priorities

Through the end of calendar 1969, each institution is requested to limit its aggregate holdings of foreign assets covered by the program to no more than 95 per cent of the adjusted amount of such assets held on December 31, 1967.

Institutions generally are expected to hold no foreign deposits or money market instruments (other than Canadian). However, an institution may maintain such minimum working balances abroad as are needed for the efficient conduct of its foreign business activities.

In addition, institutions are expected to refrain from making any new investments, in either debt or equity form, in the developed countries of continental Western Europe, except for new credits that are essential to the financing of U. S. exports. This means that reductions through amortizations, maturities or sales are not to be offset by new acquisitions in these countries.

Among other foreign assets that are subject to the guideline ceiling, institutions are asked to give absolute priority to credits that represent the bona fide financing of U. S. exports.

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

(1) 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;

(2) noncovered credits to developing-country subsidiaries of U. S. corporations that would not have been permitted under the Department of Commerce program if made by the U. S. parent directly;

(3) credits to U. S. corporate borrowers that would enable them to make new foreign loans and investments inconsistent with the *Department of Commerce* program;

(4) 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.

Covered assets

Covered foreign financial assets, subject to the guideline ceiling, include the following types of investments, except for "free delivery" items received after December 31, 1967:

1. Liquid funds in all foreign countries other than Canada. 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 1 year or less.

2. All other claims on non-Canadian foreign obligors written, at date of acquisition, to mature in 10 years or less. This category includes bonds, notes, mortgages, loans, and other credits. Excluded are bonds and notes of international institutions of which the United States is a member, and loans guaranteed or participated in by the Export-Import Bank or the Department of Defense or insured by the Foreign Credit Insurance Association, regardless of maturity.

3. Net financial investment in foreign branches, subsidiaries and affiliates, located in developed coun-

tries other than Canada and Japan.[1] Such financial investment includes payments into equity and other capital accounts of, and net loans and advances to, any foreign businesses, in which the U. S. institution has an ownership interest of 10 per cent or more. Excluded are earnings of a foreign affiliate if they are directly retained in the capital accounts of the foreign business.

4. Long-term credits of foreign obligors domiciled in developed countries other than Canada and Japan.[1] 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 other than Canada and Japan, except those acquired after September 30, 1965, in U. S. markets from American investors.[1] The test of whether an equity security is covered will depend on the institution's obligation to pay the 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.

Base-date holdings

Base-date holdings for any reporting date in 1969 are defined as: (1) total holdings of covered foreign assets as of December 31, 1967; (2) minus, equity securities of companies domiciled in developed countries (except Canada and Japan), that are included in (1) but had been sold to American investors prior to the current quarter; (3) plus, or minus, the difference between sales proceeds and "carrying" value of covered equities sold prior to the current quarter to other than American investors or in other than U. S. markets. On each reporting date in 1969, "carrying" value should be the value reflected in the institution's report (on Form F.R. 392R-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.

"Adjusted" base-date holdings, to which the 95 per cent ceiling applies, are equal to "base-date" holdings as defined above adjusted for sales *during the current quarter* of included covered equities in accordance with the procedures specified in points (2) and (3) of the preceding paragraph.

Noncovered assets

Foreign financial assets not covered by the guideline are still reportable on the quarterly statistical reports to the Federal Reserve Banks. Such noncovered foreign investments include the following:

1. All financial assets in, or claims on residents of, the Dominion of Canada.

2. Bonds and notes of international institutions of which the United States is a member, regardless of maturity.

3. Long-term investments in all developing countries and in Japan, including credit instruments with final maturities of more than 10 years at date of acquisition, direct investment in subsidiaries and affiliates, and all equity securities issued by firms domiciled in these countries.

4. 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).

Foreign assets of types covered by the program and acquired as ''free delivery'' items — that is, as new gifts or, in the case of trust companies or trust departments of commercial banks, in new accounts deposited with the institution — are not defined as covered assets, if they are acquired after December 31, 1967. Such assets should be reported as a memorandum item, as should all loans held that are guaranteed or participated in by the Export-Import Bank or the Department of Defense, or insured by the Foreign Credit Insurance Association.

Credits to certain U. S. corporations

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 sub''), and which in turn will transmit the funds to a foreign business, should be reported as a foreign asset if one or more foreigners own a majority of the stock of the ''Delaware'' 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 ''Delaware'' corporation.

In the event that U. S. residents hold a majority ownership interest in the ''Delaware'' corporation, no

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[1] Developed countries other than Canada and Japan: continental Western Europe — 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: Albania, Bulgaria, the People's Republic of China, Cuba, Czechoslovakia, Estonia, Hungary, Communist-controlled Korea, 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 Communist-controlled Vietnam.

part of a loan or investment in such a corporation is to be regarded as a foreign asset of the institution.

Leasing of physical goods

The foreign leasing activities of firms which engage primarily in the leasing of physical assets (e.g., computers, real property, ships, aircraft), and which are not owned or controlled by a U. S. financial institution, are not reportable under the nonbank program. However, such activities are reportable when they are undertaken by nonbank financial institutions. These institutions should report the book value of any physical assets leased to foreigners on the appropriate line of the quarterly form they file with their Federal Reserve Bank.

Investment in certain foreign insurance ventures

Net investment in foreign insurance ventures should be reported as such wherever possible. In the case of any such ventures in which there is no segregated net investment, the U. S. insurance company may exclude from its foreign assets 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 (if it is larger) the minimum deposit of cash or securities required as a condition of doing insurance business within that country.

Long-term credits to developing-country subsidiaries of U. S. corporations

Institutions are requested to discuss with their Federal Reserve Bank in advance any future long-term loans or direct security placements that would involve extensions of credit of $500,000 or more to private business borrowers located in the developing countries.

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, is requested to 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 by contacting the Federal Reserve Bank.

Institutions with holdings below these levels, although not requested to file formal reports, are also expected to abide by the provisions of the program.

Covered assets in excess of ceiling

For some institutions, repatriation of liquid funds, cessation of new investment in the developed countries of continental Western Europe, and restraint on reinvestment of other covered assets was not sufficient to result in achievement during 1968 of the year-end target ceiling specified under the 1968 program. In most such instances, there may have been special circumstances — such as the existence at year-end 1967 of firm commitments to invest, the need to accommodate requests for the bona fide financing of U. S. exports, or the nonmarketable nature of the institution's holdings. Nevertheless, every institution whose December 31, 1968, holdings of covered assets exceed 95 per cent of its adjusted base-date holdings should review its situation with its Federal Reserve Bank with a view to working out an individually tailored program for achieving a maximum reduction in the institution's covered foreign assets consistent with the guideline ceiling during 1969.

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 *abroad for investment in the same country or* in countries that are subject to the same or more liberal guideline limitations. 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 and Japan) 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.