

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6669]
[January 11, 1971]

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 January 7 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System re-issued today revised voluntary guidelines which U. S. banks and other financial institutions follow in limiting their loans and investments abroad. No change was made in the overall guideline ceilings already in effect under the Voluntary Foreign Credit Restraint Program (VFCR). Each bank reporting under the program will continue to have an export term-loan ceiling exclusively for loans of more than one year that finance U. S. export goods and a separate general ceiling that is available for loans of any type and of any maturity. The revisions will:

1. Exclude from the guidelines bonds and notes of international institutions — such as the International Bank for Reconstruction and Development, the Inter-American Development Bank, and the Asian Development Bank — of which the United States is a member. This grants to banks under the program an exclusion that already applies to nonbank financial institutions.
2. Exempt export credits from a subceiling that limits short-term credits to residents of developed countries of continental Western Europe. These short-term export credits must still be reported under the banks' general ceiling.
3. Incorporate into the body of the guidelines three amendments adopted in 1970 and clarify language in several guidelines provisions.

The VFCR, in operation since 1965 to limit capital outflows by banks and nonbank financial institutions such as insurance companies and mutual funds, is part of the Government's overall effort to strengthen the U. S. balance of payments position. Other parts of that effort are the interest equalization tax and the foreign direct investment program administered by the Treasury Department and the Department of Commerce, respectively.

In re-issuing the guidelines, the Board said that the outlook for the U. S. balance of payments did not justify changing the degree of restraint under the VFCR program. Consequently, the revisions relating to international institutions and short-term export credits to the developed countries of continental Western Europe reflect technical changes. The first was designed to equalize treatment under the guidelines between banks and other financial institutions, and the second was made to give banks greater flexibility in using their existing leeway under the general ceiling for export financing.

There are two subsidiary restraints on bank lending to residents of the developed countries of continental Western Europe. One asks that no credits of more than one-year maturity be extended to

such residents, except to finance exports. The other asks that credits of one year or less to such residents not exceed 75 per cent of the amount each bank had outstanding in credit of this kind at the end of 1967. The latter provision is now being revised to exempt export credits.

At the end of November, the banks' general ceiling amounted to \$10 billion, and the export term-loan ceiling amounted to \$1.4 billion, or \$11.4 billion in total. Outstanding credits subject to these ceilings totaled \$8.9 billion and \$157 million respectively. Thus the banks had leeway for further lending of \$2.4 billion. Loans and investments in Canada and credits related to Export-Import Bank financing are exempt from the ceilings.

All changes in the guidelines are in provisions relating to banks and are effective immediately. Language was clarified in guideline provision II: A-3a and c; A-5; D-3c; D-4; E-1; and G-2. Changes in reference to "previous guidelines" consequential to the issuance of a new text were made in guideline provision II: A-1; and D-3b and c.

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

Our Foreign Department (Telephone Extension 8131 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 8034 or 8035).

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.

Revised Guidelines for Banks and Nonbank Financial Institutions

I. GENERAL PURPOSE

In order to help to strengthen the U. S. balance of payments, U. S. financial institutions are asked to continue to restrain their foreign loans and investments and, within the limits of the restraints, to give priority to financing U. S. exports of goods and services and to meeting the credit needs of developing countries.

II. BANKS

A. Ceilings

1. *Banks with ceilings under previous guidelines*

A bank that had a foreign lending ceiling under the Federal Reserve foreign credit restraint guidelines in existence on November 30, 1970 (hereafter "previous guidelines") will have, under the present revised guidelines, a General Ceiling and an Export Term-Loan Ceiling. The General Ceiling will be available for foreign claims of any type and maturity, including Export Term Loans; subject to the definitions and other conditions set forth below, the Export Term-Loan Ceiling will be available solely for foreign export term loans.

a. *General Ceiling*

(i) The General Ceiling will be equal to the bank's adjusted ceiling as of November 30, 1969, as further adjusted under guidelines issued subsequent to that date.

(ii) A bank should not at any time hold claims on foreigners in excess of its General Ceiling, except for the claims which it reports under its separate Export Term-Loan Ceiling described in section A-1-b, below.

(iii) Within its General Ceiling, a bank should give priority to credits financing exports of U. S. goods and services and to credits meeting the needs of developing countries.

b. *Export Term-Loan Ceiling*

(i) The Export Term-Loan Ceiling will be equal to 0.5 per cent of the bank's total assets as of December 31, 1968, as that ceiling is further adjusted under guidelines issued subsequent to November 30, 1969.

(ii) A bank should not at any time hold claims on foreigners that are export term loans, as defined in section G-3 below, to finance goods exported from the

United States after November 30, 1969, or to finance services performed in foreign countries by U. S. individuals or U. S. firms after November 30, 1969, in excess of the bank's Export Term-Loan Ceiling, except such export term loans as the bank counts against its General Ceiling, described in section A-1-a, above.

2. *Banks without ceilings under previous guidelines*

A bank that has not had a foreign lending ceiling under the previous guidelines may discuss with the Federal Reserve Bank in its District the possibility of adopting a General Ceiling and an Export Term-Loan Ceiling. In determining whether and, if so, in what amount, ceilings should be established, there should be clear reason for expecting that the bank will use such ceilings predominantly for short- and long-term export loans. Any General Ceiling, and any Export Term-Loan Ceiling should not, in the aggregate, exceed 1 per cent of the bank's total assets as of December 31, 1968.

3. *Western Europe*

a. *General Ceiling adjustment for prior nonexport term loans.* A bank each month should reduce its General Ceiling by the dollar amount of any repayments it receives on nonexport term loans to residents of developed countries of continental Western Europe outstanding on December 31, 1967.

b. *Restraint on new nonexport term loans.* A bank should not make new term loans to such residents, except loans that finance U. S. exports.

c. *Subceiling on short-term credits.* A bank should hold the amount of nonexport short-term credits (having a maturity of not over one year) to such residents to not more than 75 per cent of the amounts outstanding on December 31, 1967 of all short-term credits to such residents.

4. *Adjustment for prior export term loans*

A bank each month should reduce its General Ceiling, and should increase its Export Term-Loan Ceiling, by the dollar amount of any repayments it receives on Export Term-Loans outstanding on November 30, 1969.

5. *Sales of foreign assets*

a. *Sales without recourse.* A bank that sells a foreign asset that is subject to the guideline ceilings,

without recourse, (a) to a U. S. resident other than a financial institution participating in the Federal Reserve foreign credit restraint program or other than a direct investor subject to the controls administered by the Department of Commerce or (b) to the Export-Import Bank should reduce its General Ceiling or its Export Term-Loan Ceiling, whichever is relevant, by an equivalent amount.

b. *Sales with recourse.* A bank that sells a foreign asset that is subject to the guideline ceilings with recourse (a) to a U. S. resident other than a financial institution participating in the Federal Reserve foreign credit restraint program or other than a direct investor subject to the Foreign Direct Investment Program administered by the Department of Commerce (b) to the Export-Import Bank should continue to report those assets under its General Ceiling or its Export Term-Loan Ceiling, whichever is relevant.

6. *Total assets*

For the purpose of calculating the Export Term-Loan Ceiling, total assets are those shown in the Official Report of Condition submitted to the relevant supervisory agency as of December 31, 1968.

7. *Foreign borrowings*

In principle, the restraints under these guidelines are imposed on gross foreign assets, including gross claims on foreigners. However, certain liabilities to foreigners may be counted as offsets to foreign assets only where the liabilities arise from borrowings abroad that substitute for direct investment capital outflow from the United States and are not likely to substitute for foreign deposits, or for short-term foreign investments, in the United States. Such offsetting may be done in the manner described below.

a. *Banks and Edge Act, and Agreement, Corporations.* A bank, an "Edge Act" Corporation, or an "Agreement" Corporation may not count its borrowings from, or its other liabilities to, foreigners as offsets to its claims on foreigners and other foreign assets.

b. *Domestic subsidiaries.* A domestically-chartered subsidiary (for example, a so-called Delaware subsidiary) of an Edge Act Corporation or of an Agreement Corporation may count the outstanding amount of its borrowings from foreigners as offsets to its claims on foreigners and to its other foreign assets, provided those borrowings are of an original maturity of three years or more. Such borrowings would include debentures, promissory notes, or other debt obligations of the domestic subsidiary to a foreigner. The amount of the offset at any time would be equal to the amount of the outstandings after deducting (i) any repayments of principal and (ii) in the case of convertible debt issues, any conversions. This offsetting principle may be used to reduce the value of foreign assets of the subsidiary in computing the value of foreign as-

sets to be consolidated for reporting purposes with those of the parent institution; any excess of outstanding borrowings of the subsidiary over foreign assets of the subsidiary may not be used to reduce the reportable value of foreign assets of the parent institution.

B. *Exclusions*

1. *Canada*

a. *No restraint.* These guidelines are not to restrain the extension of credit to residents of Canada.

b. *Reporting.* For the purpose of reporting claims under the General Ceiling, a bank should count against its General Ceiling claims on residents of Canada outstanding on February 29, 1968, deducting any net increase in such claims granted after that date and adding any net reduction in such claims granted after that date.

2. *Certain guaranteed and insured loans*

Loans that are to finance U. S. exports and that are guaranteed, or participated in, by the Export-Import Bank, or guaranteed by the Department of Defense, or are insured by the Foreign Credit Insurance Association are exempted from the General Ceiling and the Export Term-Loan Ceiling.

3. *Securities of certain international institutions*

Bonds and notes of international institutions of which the United States is a member, regardless of maturity, are exempted from the General Ceiling and from the Export Term-Loan Ceiling.

C. *Temporary overages*

A bank whose claims on foreigners are in excess of either or both of its ceilings and which does not show improvements will be invited periodically to discuss with the Federal Reserve Bank in its District the steps it has taken and that it proposes to take to bring the amount of its claims under the ceilings.

D. *Applicability to financial institutions*

1. *General*

The guidelines are applicable to all U. S. banks (exclusive of the trust departments of commercial banks, which should follow the guidelines for nonbank financial institutions in Part III, below) and to "Edge Act" and "Agreement" Corporations.

2. *Edge Act and Agreement Corporations*

a. *Policy of limiting aggregate ceilings.* It is intended that the establishment of new Edge Act Corporations or Agreement Corporations not result in the expansion of aggregate lending ceilings under these guidelines.

b. *One-bank owned corporations.* An Edge Act or Agreement Corporation that is owned by one bank and that, under the previous guidelines, had a ceiling separate from that of its parent bank may continue to be guided by General and Export Term-Loan Ceilings separate from those of its parent or may combine its foreign loans and investments with the respective General and Export Term-Loan Ceilings of its parent.

(i) The General Ceiling and the Export Term-Loan Ceiling to which it would be entitled if it did not combine would be calculated as under section A-1, above on the basis of the Corporation's total assets and its adjusted ceiling under guidelines in existence November 30, 1969, subject to ceiling adjustment under subsequent guidelines.

(ii) An Edge Act or Agreement Corporation that is owned by one bank and that was established after March 3, 1965 should share the General and Export Term-Loan Ceilings of its parent bank.

c. *Multi-bank owned corporations*

(i) *Separate ceilings.* An Edge Act or Agreement Corporation that is owned by more than one bank or by a registered bank holding company will have a General Ceiling and an Export Term-Loan Ceiling separate from those of its parent. The Corporation's General Ceiling and Export Term-Loan Ceilings are each to be equal, respectively, to 100 per cent and 10 per cent of its adjusted ceiling as of November 30, 1969, as further adjusted under guidelines issued subsequent to that date.

(ii) *Transfer of Parent's Ceiling.* To acquire or to increase ceilings, such an Edge Act or Agreement Corporation may receive from one or more of its parent banks a share of the ceilings of the parent or parents. Once transferred to the Corporation, the ceilings should not be transferred back to the parent or parents, except to meet unforeseen and overriding developments. If any such exceptional need for re-transfer should arise, the Corporation and its parent or parents should consult in advance with the Federal Reserve Bank in their respective Districts.

3. *Holding companies*

a. *Registered bank holding companies.* A registered bank holding company is to be treated as a bank for the purpose of these guidelines.

b. *One-bank holding companies.* A one-bank holding company whose bank subsidiary has ceilings under these guidelines is to be treated as a bank for the purpose of these guidelines. Such a holding company, together with its bank subsidiary and any nonbank subsidiary, should report on a consolidated basis. However, the General Ceiling and the Export Term-Loan Ceiling, respectively, are to be calculated on the basis of the ceiling of the bank subsidiary under the guidelines in existence on November 30, 1969 and on the basis of the bank subsidiary's total assets

as of December 31, 1968. Furthermore, to minimize changes from earlier established procedures, any non-bank subsidiary that was reporting prior to December 1, 1969, to the Department of Commerce under the Foreign Direct Investment Program or to a Federal Reserve Bank under the nonbank financial institution guidelines should not report under these bank guidelines.

c. *Consolidation of ceilings of bank subsidiaries of registered bank holding companies.* A bank subsidiary (including a bank, Edge Act Corporation, or Agreement Corporation) of a registered bank holding company may consolidate its General Ceiling and Export Term-Loan Ceiling with the respective ceilings of one or more of the holding company's other bank subsidiaries which had ceilings under guidelines in existence on November 30, 1969.

4. *Foreign branches and foreign subsidiaries of U. S. banks and banking institutions*

a. The guidelines are not designed to restrict the extension of foreign credit by foreign branches of U. S. banks or by foreign subsidiaries of (1) U. S. banks, (2) Edge Act Corporations, or (3) Agreement Corporations, except as the result of the restraints on banks (including Edge and Agreement Corporations) with respect to foreign credit to, or foreign investment in, such branches or subsidiaries.

b. Total claims of a bank's domestic offices on its foreign branches and foreign subsidiaries (including permanent capital invested in, as well as balances due from, such foreign branches and foreign subsidiaries) represent bank credit to foreigners for purposes of the guidelines.

5. *Domestic subsidiaries of Edge Act and Agreement Corporations*

The foreign assets of domestically-chartered subsidiaries of Edge Act Corporations and of Agreement Corporations (net of foreign borrowings offset under II-A-7-b, above) should be consolidated with the foreign assets of the parent for purposes of the guideline.

E. *Conformity with objectives of guidelines*

1. *Department of Commerce program and non-bank financial institution guidelines*

Banks should avoid making loans that would directly or indirectly enable borrowers to use funds abroad in a manner inconsistent with the Department of Commerce Foreign Direct Investment Program or with the guidelines for nonbank financial institutions.

2. *Substitute loans*

Banks should not extend to U. S.-resident subsidiaries, or branches, of foreign companies loans that

otherwise might have been made by the banks to the foreign parent or other affiliate of the company or that normally would have been obtained abroad.

3. *Management of liquid assets*

A bank should not place its own funds abroad (other than in Canada) for short-term investment purposes, whether such investments are payable in foreign currencies or in U. S. dollars. Banks need not, however, reduce necessary working balances held with foreign correspondents.

4. *Transactions for customers*

While recognizing that it must follow a customer's instruction, a bank should 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 guidelines, it would have acquired or held for its own account.

5. *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 these guidelines.

F. Reporting

Each bank that has ceilings under these guidelines and that on a reporting date had \$500,000 or more in foreign claims should file a Monthly Report on Foreign Claims with the Federal Reserve Bank in the District in which the bank is located. (Forms are available at the Federal Reserve Banks.)

G. Definitions

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. "Claims on foreigners" are claims on foreigners held for a bank's own account. They include: foreign long-term securities; foreign customers' liability for acceptances executed, whether or not the acceptances are held by the reporting banks; deferred payment letters of credit described in the Treasury

Department's Supplementary Reporting Instructions No. 1, Treasury Foreign Exchange Reports, Banking Forms, dated May 10, 1968; participations purchased in loans to foreigners; loans to financial subsidiaries incorporated in the United States, 50 per cent or more of which is owned by foreigners; and foreign assets sold, with recourse, to U. S. residents other than financial institutions participating in the Federal Reserve credit restraint program or other than direct investors subject to the controls administered by the Commerce Department or to the Export-Import Bank. "Claims on foreigners" exclude: contingent claims; unutilized credits; claims held for account of customers; acceptances executed by other U. S. banks; and, in the manner determined in section B-1-b above, claims on residents of Canada.

3. An "export term loan" is a claim on a foreigner having an original maturity of more than 1 year and for the demonstrable financing of one or more specific export transactions involving the shipment of U. S. goods to a foreign destination or the performance of U. S. services abroad. The loans may be made directly by a bank or may be made indirectly by a bank through its purchase of documented loan paper. For the purpose of the present guidelines, such loans that are to be counted against an Export Term-Loan Ceiling are confined to credits financing U. S. exports shipped after November 30, 1969, or services performed abroad by U. S. individuals or U. S. firms after November 30, 1969. Such loans exclude debt obligations acquired by a bank and having not more than a year of remaining term until maturity (regardless of original length of maturity). The loans also exclude Export-Import Bank certificates of participation in a pool of loans. (Participations with the Export-Import Bank in particular loans and loan paper purchased from the Export-Import Bank of foreign obligors are exempted under section II-B-2, above.)

4. Developing countries are all countries other than: 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; and other than: 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.

III. NONBANK FINANCIAL INSTITUTIONS

A. Types of institutions covered

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; the U. S. branches of foreign insurance companies and of other foreign nonbank financial corporations; and holding companies (other than bank holding companies) whose domestic assets consist primarily of the stock of operating nonbank financial institutions. 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.

B. Ceiling and priorities

Each institution is requested to limit its aggregate holdings of foreign assets covered by the program to no more than 100 per cent of the adjusted amount of such assets held on December 31, 1967, except for special situations discussed in K below.

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.

Among other foreign assets that are subject to the guideline ceiling, institutions are asked to give first priority to credits that represent the bona fide financing of U. S. exports, and second priority to credits to developing countries. In addition, institutions are requested not to increase the total of their investments in the developed countries of continental Western Europe beyond the amount held on December 31, 1968, except for new credits that are judged to be essential to the financing of U. S. exports. This means that reductions through amortizations, maturities, or sales may be offset by new acquisitions in these countries. However, institutions are expected to refrain from offsetting proceeds of sales to other Americans by new acquisitions from foreigners.

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.

C. 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, regardless of maturity. Excluded also are loans guaranteed or participated in by the Export-Import Bank, guaranteed by the Department of Defense, or insured by the Foreign Credit Insurance Association.

3. Net financial investment in foreign branches, subsidiaries and affiliates, located in developed countries other than Canada.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.

¹ See footnote on page 8.

4. Long-term credits of foreign obligors domiciled in developed countries other than Canada.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,¹ except 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 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.

D. Base-date holdings

Base-date holdings for any reporting date after September 30, 1969, are defined as:

1. Total holdings of covered foreign assets as of the base date, which is December 31, 1969 for investments in Japan of the types described in C-3, 4, and 5 above, and December 31, 1967 for all other covered assets;

2. Minus, equity securities of companies domiciled in developed countries (except Canada), 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, "carrying" value should be the value reflected in the institution's report (on Form FR 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 100 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 (2) and (3) of the preceding paragraph.

E. Noncovered assets

Foreign financial assets not covered by the guidelines are still reportable on the quarterly statistical reports to the Federal Reserve Banks. Such non-covered 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, 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 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 were acquired after December 31, 1967. Such assets should be reported as a memorandum item, as should outstanding amounts of loans guaranteed or participated in by the Export-Import Bank, guaranteed by the Department of Defense, or insured by the Foreign Credit Insurance Association.

F. 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

¹ Developed countries other than Canada: 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, Japan, Kuwait-Saudia 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.

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

G. 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.

H. 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.

I. Long-term credits to developing-country businesses

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.

J. 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 cover-

ing 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.

K. Covered assets in excess of ceiling

1. 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) 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.

2. While institutions are expected to make every reasonable effort to reduce outstanding nonexport credits in order to accommodate new export credits within their guideline ceiling, such a reduction may not be feasible for some institutions. An institution that cannot avoid exceeding its guideline ceiling if it makes new loans to finance U. S. exports — excluding loans that are guaranteed or participated in by the Export-Import Bank, guaranteed by the Department of Defense, or insured by the Foreign Credit Insurance Association — should notify its Federal Reserve Bank of the prospective overage before making such loans.

3. An institution with a guideline ceiling of less than \$500,000 may hold covered assets up to this amount if its investments are consistent with other guideline provisions, e.g., those with respect to liquid funds and to nonexport credits to the developed countries of continental Western Europe. The institution is expected to file an initial statement of its holdings with its Federal Reserve Bank and thereafter to file a statement with the Bank within 20 days after the end of any calendar quarter when its total holdings of covered foreign assets have changed by as much as \$100,000 since its previous report, even though its total holdings remain below the minimum reporting levels stipulated in the guidelines.