

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7191]
July 24, 1973

Amendment to Voluntary Foreign Credit Restraint Guidelines
Effective July 19, 1973

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

The following statement was issued July 19 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today issued an amendment to the Voluntary Foreign Credit Restraint Guidelines (VFCR) to provide a specific formula for restraint of foreign lending and investment by the U. S. agencies and branches of foreign banks.

The amendment requests agencies and branches not to increase their foreign assets covered by the program above the levels of June 30, 1973, except to the extent that they obtain the additional funds outside the United States. The amendment will not change the degree of restraint on covered institutions but is designed to ensure uniformity in observance of the VFCR program.

Agencies and branches had not been assigned specific lending ceilings under the VFCR program, as was the case with U. S. banks. Instead, they were asked to conform to the spirit of the Guidelines and to consult with the Federal Reserve Bank in their district. As activity by the agencies and branches has grown over the years, the lack of a specific guideline has produced some unevenness in observance of the VFCR and prompted the Board to adopt the formula announced today.

The formula ties the restraint to the amount of funds the agencies and branches obtain from their parent banks and other foreigners. Unlike U. S. banks, the agencies and branches rely mainly on foreign sources of funds for their banking activities.

At the end of May 1973, the latest date for which complete data are available, there were 64 U. S. agencies and branches of foreign banks with \$1,000,000 or more in foreign assets. These institutions, located in the New York area and on the Pacific Coast, had total foreign assets of about \$6.2 billion as of the end of May. Of this amount about \$3.6 billion was of types subject to restraint under the VFCR Program. In the approximately year and a half since data were first collected on the foreign lending and investment activities of these institutions, their foreign assets—total and of the type subject to Guideline restraint—have approximately doubled.

The text of the changes in the guidelines, effective July 19, 1973, is printed on the reverse side. Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.

(OVER)

CHANGES IN GUIDELINES

II. BANKS

A. Ceilings for Nonexport Financing

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9. U. S. Agencies and Branches of Foreign Banks

a. The ceiling of a U. S. agency or branch of a foreign bank that holds \$1,000,000 or more in foreign assets (whether or not subject to restraint under the Guidelines) will be equal, to its holding of foreign assets on June 30, 1973, of types subject to restraint under the Guidelines; less any decrease (or plus any increase) in its liabilities to foreigners subsequent to June 30, 1973.

b. Subsequent to that date, any increase in such assets should be at least matched by an increase in foreign liabilities; correspondingly, any decrease in such liabilities should be accompanied by at least an equal reduction in such assets.

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D. Applicability to Banks and Bank-Related Financial Institutions

1. General

The Guidelines are applicable to all U. S. banks . . . [. . .], and to U. S. agencies and branches of foreign banks. /

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E. Conformity with Objectives of Guidelines

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6. Banks without ceilings

A bank that has not adopted a ceiling will be acting in conformity with the objectives of the Guidelines . . .

A U. S. agency or branch of a foreign bank that has not adopted a ceiling would be acting in conformity with the objectives of the Guidelines (a) if its holdings of foreign assets of types subject to restraint do not exceed \$1,000,000 and (b) if those foreign assets are otherwise in conformity with the Guidelines. A U. S. agency or branch of a foreign bank, regardless of when established or when it commences operation, that holds \$1,000,000 or more of foreign assets (whether or not subject to restraint under the Guidelines) will automatically have a monthly ceiling in accordance with section A-9 and should make every reasonable effort to ensure that its foreign assets and foreign liabilities are kept throughout the monthly reporting periods, as well as on the end-of-the month reporting dates, at levels consistent with its ceiling. Each agency and branch of a foreign bank may adopt an individual ceiling. Alternatively, one or more agencies or branches of a particular foreign bank may consolidate ceilings to which they would be entitled. Once consolidated, they should henceforth report as a unit under the Guidelines.