Regulations governing the investment portfolios of institutions such as commercial banks, insurance companies, savings banks, investment companies and pension funds—while principally designed to protect depositors, shareholders, or policyholders—often tend in practice to create protected markets for certain privileged borrowers and to restrict foreign investment. Foreign securities, even when denominated in domestic currencies or protected against exchange risks, are usually discriminated against by regulatory authorities. Offerings of new or secondary issues of foreign securities in particular are much more difficult to market abroad when certain large institutional investors are not allowed to subscribe.

Financial institutions in most countries have gradually been permitted to increase the proportion of their assets held in equities. The risk involved in holding good-quality foreign securities would, in many cases, be no greater than the risk involved in investing in many domestic securities. We believe serious consideration should be given to relaxing restrictions on the amount of securities denominated in foreign currencies that can be held by such institutions.

Role of International Organizations

Recommendation No. 38:

The Department of State and the Treasury Department should, through appropriate international bodies, particularly the OECD, advocate the step-by-step relaxation of monetary, legal, institutional, and administrative restrictions on capital movements, together with other actions designed to increase the breadth and efficiency of free world capital markets.

The international movement of capital is kept under constant review by the Organization for Economic Cooperation and Development, to which the United States belongs. This organization can and should be more intensively utilized as a forum for review and confrontation on restrictions impeding the flow of capital among its members. Similarly, the OECD can assist in developing more effective capital markets in countries where these markets have lagged behind rapid industrial growth.

Recommendation No. 39:

The Department of State and the Treasury Department should urge the International Monetary Fund to encourage step-by-step elimination