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PRESS RELEASES

DEPARTMENT OF THE TREASURY

TREASURY NEWS

1789

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
May 2, 1996

Contact: Jon Murchinson
(202) 622-2960

MICROLENDING AWARDS PROGRAM ANNOUNCED

Treasury Secretary Robert Rubin and First Lady Hillary Rodham Clinton Thursday announced details of a Presidential Award program to recognize five aspects of micro-lending initiatives in the United States that broaden access to credit to lower-income Americans.

Created within the Treasury Department at the direction of President Clinton, the awards program will honor undertakings that offer not only access to credit, but technical assistance and training to micro-entrepreneurs. Awards will be presented for the first time this fall.

"This nation will fall far short of its full economic potential for all Americans unless our cities and distressed rural areas are healthy," Secretary Rubin said in video taped remarks prepared for the Association for Enterprise Opportunity where the award details were announced. "By helping poor people in the United States enter the economic mainstream, we reduce the social costs of poverty, increase national productivity, and improve social conditions for all of us... We don't have a monopoly on good ideas in the United States. This works overseas, and if adapted to our own economy, it can work in America."

Mrs. Clinton, who has encouraged micro-enterprise lending in the United States and abroad as a development vehicle, added, "Whether it is for a milk cow in Bangladesh or a computer in Chicago, women and men need help, encouragement -- and credit -- to make that first investment. Here in the United States, we are working to build up a micro-enterprise network."

Secretary Rubin said awards will recognize outstanding and innovative programs that provide access to credit, technical help and training. Four categories of awards to development organizations will highlight excellence in program innovation, access to credit, development of entrepreneurial skills, and poverty alleviation. A fifth category will reward private sector, foundation and governmental support for these micro-development organizations.

Microlending -- small loans, often just a few hundred dollars to budding entreprenuers -- is centered in community-based banks, credit unions, community loan funds and other local institutions. Interest rates are generally comparable to commercial lending rates and loan repayment rates often exceed those in the commecial sector.

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
May 2, 1996

VIDEO REMARKS OF TREASURY SECRETARY ROBERT E. RUBIN ASSOCIATION FOR ENTERPRISE OPPORTUNITY

Thank you, Mrs. Clinton, and thank you for lending your thinking and support to the simple but important idea of using capital and capitalism to fight poverty and deprivation, here and around the world. You have been a champion of microenterprise development, and your involvement will help provide momentum to a program with a potential for a substantial impact on poverty both in the United States and in developing nations around the world.

One of the objectives of economic policy must be to bring the free market system to bear on the problems of poverty both here and abroad. This is in the self-interest of all Americans.

By helping poor people in the United States enter the economic mainstream, we reduce the social costs of poverty, increase national productivity, and improve social conditions for all of us. By helping poor people abroad, we create new markets for American exports and increase stability, thereby enhancing our national security. Helping the poor is clearly in the interest of the poor, but it is equally clearly in the interest of all Americans, no matter where they live or what their economic status may be.

That takes investment in education, in training, in skills. Toward these ends, the President has expanded Head Start and has helped our nation's schools better prepare our children for the 21st century. He has expanded the Earned Income Tax Credit to help families choose work over welfare and to make work pay.

And as you will be discussing here today, that requires expanding capital access, an important part of helping to reduce poverty in neighborhoods throughout the world. I saw it working in Manila at a micro-project underwritten by the Asian Development Bank. There, people in a poor neighborhood who couldn't possibly get capital in traditional channels are borrowing to start very small businesses. Moreover, the loans are profitable and the repayment rate is very high. This is micro-lending putting people to work.

-MORE-

We don't have a monopoly on good ideas in the United States. This works overseas, and if adapted to our own economy, it can work in America to help people in distressed communities better their lives and join the American economic mainstream.

In fact, as you well know, micro-enterprise development has begun in earnest here in the United States. I have met people involved in these programs and the results are encouraging. But we must expand the scale, and at the same time combine the availability of capital with technical assistance and training for borrowers. Again, a lesson to be learned from observing programs abroad.

Micro-enterprise lending is just one example of President Clinton's commitment to increasing the flow of private capital to economically distressed areas. He has reduced regulations and paperwork to make the Community Reinvestment Act more effective for borrowers and less burdensome for banks, and he has successfully defended the Community Reinvestment Act against Congressional efforts to undermine it.

He has also, and very importantly, launched the Community Development Financial Institutions Fund, or CDFI, to provide seed and expansion capital to community-based banks, credit unions, community loan funds, and micro-lenders. These institutions foster economic growth and job creation in their neighborhoods. When we issued our first call for CDFIs and traditional financial institutions to apply for Fund assistance and incentives, community requests exceeded current resources by 10 to 1.

Now, as Mrs. Clinton said, the President has asked Treasury to create a Presidential Awards program for excellence in micro-enterprise development. Today, I'm please to announced that we are launching these awards, under the CDFI Fund.

The Presidential Awards will recognize outstanding and innovative programs that provide access to credit, technical assistance, and training to micro-entrepreneurs. Four categories of awards to micro-enterprise development organizations will highlight excellence in program innovation, access to credit, development of entrepreneurial skills, and poverty alleviation. A fifth category will reward private sector, foundation, and governmental support for these micro-development organizations.

These non-monetary awards will allow micro-enterprise development organizations to compete for public recognition just as large American corporations now compete for the Malcolm Baldridge Award. And in rewarding the best in the country, the awards program will disseminate information to others about best practices, helping to advance micro-enterprise development more generally. Awards will be presented for the first time this fall.

On a broader front, let me say that these initiatives, from investing in human capital to improving access to capital, are enormously in the interest of all Americans, looked at from a purely hardheaded and business-like perspective. Simply put, I think this nation will fall far short of its full economic potential for all Americans unless our cities and distressed rural areas are healthy. And our social fabric will become weaker instead of stronger, again, for all of us, unless we tackle these problems successfully.

With strong public support for CDFI, the Community Reinvestment Act, the Low Income Housing Tax Credit, and our new micro-enterprise programs, we now have a chance to make locally driven, public-private partnerships reach communities across the land. We can help rebuild neighborhoods, create jobs, and restore hope in neighborhoods long left behind.

To accomplish this, all of us must meet our respective challenges. Our challenge, the government's challenge, is to act as catalyst with investments in people, seed capital and a helping start. Your challenge, and what this sixth annual AEO conference is all about, is continually to improve and grow. The challenge to individuals is to take advantage of educational opportunities and commit to hard work. The challenge to communities is to organize themselves for change. And the challenge to the business sector is to see its long term self-interest in bringing everyone into the economic mainstream.

It will take all of us rising to those challenges to succeed. But I believe that is the only way the United States can reach its full potential in the years and decades to come.

Thank you. Keep up the good work. It is making a difference all across America.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Remarks as prepared for delivery
May 2, 1996

VIDEO REMARKS OF FIRST LADY HILLARY RODHAM CLINTON ASSOCIATION FOR ENTERPRISE OPPORTUNITY CONFERENCE

Good Morning. Although we can't join you in person, Secretary Rubin and I wanted to take this opportunity to congratulate the Association for Enterprise Opportunity and all your members on the important work you are doing to expand economic opportunity to all Americans. This is a vital undertaking, and your gathering comes at a crucial time.

The basis for any long-term solution to poverty rests in a community's ability to help those living in poverty raise their own incomes. Low-income Americans are capable and hard-working. What they lack is not initiative, but opportunity and access to credit. As one woman working to establish her small business in Colorado said to me, "Too many great ideas die in the parking lots of banks."

Members of AEO know the importance of microenterprise. You have provided people across our country with opportunity -- the opportunity to borrow small amounts of money and prove that all kinds of people are credit-worthy. You have given people the opportunity to gain technical knowledge to start small businesses or to bring some great ideas to life, and most important, to improve their own lives and the lives of their families.

In my travels throughout our country and around the world, I have seen first-hand the transforming effects small loans can have, especially for women and their families in both the developing and developed world. At the Grameen Bank in Bangladesh, I met a woman who used a small loan to buy a milk cow. After she paid off the loan with proceeds from the milk, she took out a loan for another cow. After repaying that loan, she decided it was time for her husband to help increase the family income. She took out a third loan to help him buy a rickshaw.

And I met a woman in Chile whose whole outlook on life was changed by the fact that someone took a risk and lent her money to buy a sewing machine. She said she felt like "a bird freed from its cage" when she received her first loan.

-MORE-

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 6, 1996

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,671 million of 13-week bills to be issued May 9, 1996 and to mature August 8, 1996 were accepted today (CUSIP: 9127943C6).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.01%	5.14%	98.734
High	5.03%	5.16%	98.729
Average	5.02%	5.16%	98.731

Tenders at the high discount rate were allotted 12%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$61,981,848	$13,670,968
Type		
Competitive	$56,354,705	$8,043,825
Noncompetitive	1,608,633	1,608,633
Subtotal, Public	$57,963,338	$9,652,458
Federal Reserve	3,948,010	3,948,010
Foreign Official Institutions	70,500	70,500
TOTALS	$61,981,848	$13,670,968

AUCTIO RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 6, 1996

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,525 million of 26-week bills to be issued May 9, 1996 and to mature November 7, 1996 were accepted today (CUSIP: 9127943N2).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.13%	5.34%	97.407
High	5.14%	5.35%	97.401
Average	5.14%	5.35%	97.401

Tenders at the high discount rate were allotted 32%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$49,981,540	$13,524,885
Type		
Competitive	$42,383,045	$5,926,390
Noncompetitive	1,342,695	1,342,695
Subtotal, Public	$43,725,740	$7,269,085
Federal Reserve	3,500,000	3,500,000
Foreign Official Institutions	2,755,800	2,755,800
TOTALS	$49,981,540	$13,524,885

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR RELEASE AT 3:00 PM
May 6, 1996

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR APRIL 1996

Treasury's Bureau of the Public Debt announced activity figures for the month of April 1996, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$884,881,516
Held in Unstripped Form	$657,998,030
Held in Stripped Form	$226,883,486
Reconstituted in April	$12,497,534

The accompanying table gives a breakdown of STRIPS activity by individual loan description. The balances in this table are subject to audit and subsequent revision. These monthly figures are included in Table VI of the Monthly Statement of the Public Debt, entitled "Holdings of Treasury Securities in Stripped Form."

Information about "Holdings of Treasury Securities in Stripped Form" is now available on the Department of Commerce's Economic Bulletin Board (EBB). The EBB, which can be accessed using personal computers, is an inexpensive service provided by the Department of Commerce. For more information concerning this service call 202-482-1986.

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(RR-1053)

TABLE VI – HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, APRIL 30, 1996
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding			Reconstituted This Month #1
		Total	Portion Held in Unstripped Form	Portion Held in Stripped Form	
3/8% Note C-1996	05/15/96	20,085,643	16,020,043	4,065,600	385,600
1/4% Note D-1996	11/15/96	20,258,810	16,526,010	3,732,800	90,400
1/2% Note A-1997	05/15/97	9,921,237	8,328,837	1,592,400	305,200
5/8% Note B-1997	08/15/97	9,362 836	7,084,436	2,278,400	92,800
7/8% Note C-1997	11/15/97	9,808,329	6,817,929	2,990,400	158,400
1/8% Note A-1998	02/15/98	9,159,068	7,802,268	1,356,800	55,680
% Note B-1998	05/15/98	9,165,387	7,062,587	2,102,800	50,000
1/4% Note C-1998	08/15/98	11,342,646	8,672,246	2,670,400	129,600
7/8% Note D-1998	11/15/98	9,902,875	6,789,275	3,113,600	20,800
7/8% Note A-1999	02/15/99	9,719,623	8,346,823	1,372,800	104,000
1/8% Note B-1999	05/15/99	10,047,103	7,083,903	2,963,200	86,400
% Note C-1999	08/15/99	10,163,644	7,561,019	2,602,625	14,350
7/8% Note D-1999	11/15/99	10,773,960	7,319,560	3,454,400	52,800
/2% Note A-2000	02/15/00	10,673,033	7,967,033	2,706,000	71,600
7/8% Note B-2000	05/15/00	10,496,230	5,755,430	4,740,800	0
3/4% Note C-2000	08/15/00	11,080,646	7,035,046	4,045,600	152,160
/2% Note D-2000	11/15/00	11,519,682	7,388,882	4,130,800	24,000
3/4% Note A-2001	02/15/01	11,312,802	8,026,402	3,286,400	40,800
Note B-2001	05/15/01	12,398,083	8,872,508	3,525,575	85,600
7/8% Note C-2001	08/15/01	12,339,185	9,705,585	2,633,600	64,000
/2% Note D-2001	11/15/01	24,226,102	21,309,302	2,916,800	286,720
/2% Note A-2002	05/15/02	11,714,397	10,058,397	1,656,000	93,360
/8% Note B-2002	08/15/02	23,859,015	22,780,615	1,078,400	102,400
/4% Note A-2003	02/15/03	23,562,691	23,073,987	488,704	528,576
/4% Note B-2003	08/15/03	28,011,028	27,785,428	225,600	32,000
/8% Note A-2004	02/15/04	12,955,077	12,953,477	1,600	0
/4% Note B-2004	05/15/04	14,440,372	14,435,572	4,800	0
/4% Note C-2004	08/15/04	13,346,467	13,312,867	33,600	0
/8% Note D-2004	11/15/04	14,373,760	14,373,760	0	0
/2% Note A-2005	02/15/05	13,834,754	13,834,354	400	0
/2% Note B-2005	05/15/05	14,739,504	14,739,504	0	0
/2% Note C-2005	08/15/05	15,002,580	15,002,580	0	0
/8% Note D-2005	11/15/05	15,209,920	15,209,920	0	0
/8% Note A-2006	02/15/06	15,513,587	15,513,587	0	0
5/8% Bond 2004	11/15/04	8,301,806	4,157,806	4,144,000	176,000
% Bond 2005	05/15/05	4,260,758	2,208,208	2,052,550	40,000
3/4% Bond 2005	08/15/05	9,269,713	7,079,313	2,190,400	64,800
7/8% Bond 2006	02/15/06	4,755,916	4,750,604	5,312	0
3/4% Bond 2009-14	11/15/14	6,005,584	2,062,384	3,943,200	132,800
1/4% Bond 2015	02/15/15	12,667,799	9,313,079	3,354,720	795,200
5/8% Bond 2015	08/15/15	7,149,916	2,313,116	4,836,800	200,000
8% Bond 2015	11/15/15	6 899,859	4,034,259	2,865,600	547,200
4% Bond 2016	02/15/16	7,266,854	6,666,054	600,800	51,200
4% Bond 2016	05/15/16	18,823,551	18,584,351	239,200	32,000
2% Bond 2016	11/15/16	18,864,448	17,974,528	889,920	4,800
4% Bond 2017	05/15/17	18,194,169	9,770,649	8,423,520	711,520
3% Bond 2017	08/15/17	14,016,858	9,349,658	4,667,200	864,000
3% Bond 2018	05/15/18	8,708,639	2,660,639	6,048,000	86,400
Bond 2018	11/15/18	9,032,870	3,144,470	5,888,400	211,000
3% Bond 2019	02/15/19	19,250,798	5,409,198	13,841,600	649,600
3% Bond 2019	08/15/19	20,213,832	17,073,352	3,140,480	520,000
2% Bond 2020	02/15/20	10,228,868	6,268,068	3,960,800	502,000
4% Bond 2020	05/15/20	10,158,883	4,209,923	5,948,960	439,040
4% Bond 2020	08/15/20	21,418,606	5,247,406	16,171,200	779,360
3% Bond 2021	02/15/21	11,113,373	10,273,373	840,000	268,800
3% Bond 2021	05/15/21	11,958,888	5,036,328	6,922,560	206,720
3% Bond 2021	08/15/21	12,163,482	3,673,242	8,490,240	76,800
Bond 2021	11/15/21	32,798,394	6,420,794	26,377,600	667,000
1% Bond 2022	08/15/22	10,352,790	8,306,390	2,046,400	115,200
3% Bond 2022	11/15/22	10,699,626	3,594,026	7,105,600	65,600
1% Bond 2023	02/15/23	18,374,361	14,638,361	3,736,000	340,800
1% Bond 2023	08/15/23	22,909,044	22,402,164	506,880	244,928
% Bond 2024	11/15/24	11,469,662	4,627,982	6,841,680	290,320
% Bond 2025	02/15/25	11,725,170	6,920,370	4,804,800	387,200
% Bond 2025	08/15/25	12,602,007	12,373,847	228,160	0
Bond 2026	02/15/26	12,904,916	12,904,916	0	0
l		884,881,516	657,998,030	226,883,486	12,497,534

Effective May 1, 1987, securities held in stripped form were eligible for reconstitution to their unstripped form.

On the 4th workday of each month Table VI will be available after 3:00 p m eastern time on the Commerce Department's conomic Bulletin Board (EBB) The telephone number for more information about EBB is (202) 482-1986 The balances this table are subject to audit and subsequent adjustments

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

ADV 7 P.M. EDT
Remarks as prepared for delivery
May 6, 1996

REMARKS OF TREASURY SECRETARY ROBERT E. RUBIN RECIPIENT OF COLUMBIA UNIVERSITY'S BUSINESS SCHOOL AWARD FOR DISTINGUISHED LEADERSHIP IN GOVERNMENT NEW YORK, NEW YORK

Let me start by saying that I appreciate your giving me this award, but I'd like to accept this award not just for me, but for everyone in government service. Speaking for myself, the past three and one-half years have given me the extraordinary opportunity to take my experience of 26 years in the private sector, dealing with markets, the international arena, and all the rest, and turn it to dealing with issues of the nation. It's been challenging, at times frustrating, but rewarding in a special way. In a bigger sense, I think this award is very important because you are doing something far too few people in the country do, which is providing recognition for public service. And I'd like to use this occasion to discuss with you, a very influence audience, the important subject of government.

The oldest argument in the history of this country is over the appropriate role of government. The political parties have often traded positions in their advocacy of more versus less. But today, something different has happened. The national debate over the role and scope of government has been dominated by derogation of government and of public service.

I am emphatically not saying we should not debate the role of government and how to improve government. These are legitimate and critical areas of debate, and central issues with respect to national policy. I believe every view should be heard, as long as that is done within the confines of law.

RR-1054 (more)
http://www.ustreas.gov

However, as I said a moment ago, today the debate is dominated by criticism and derogation. Just think about the voices we hear. First, there are the political and intellectual voices that argue that the scope of government and its role in society should be very limited. Second, there are the popular voices on talk radio that disparage the government and the people who serve in government. And third, there are the voices of violence. Those are the voices of some in the militias and elsewhere who are actually threatening federal employees way beyond what the public sees.

The Oklahoma City bombing, obviously, has received enormous publicity, but there are many, many other instances you have not heard of. Last fall I visited Treasury's our Bureau of Alcohol, Tobacco and Firearms office in St. Paul. They'd just broken up a group suspected of planning to bomb an Internal Revenue Service office. I was at an anti-violence event in Maryland a few months ago. A woman told me she'd been working with a school to help convince youngsters not to use guns. She said someone claiming to be from the Michigan Militia threatened her life, and she was worried. The Interior Secretary has told me of case after case of Park Rangers and others being threatened. For those of you who use the internet, try this one day: type the word militia under a search area and stand back, then start reading some of this material.

What's completely missing in the public discussion of government is balance, and that has serious consequences. One result is that it becomes difficult to get public and congressional support for the functions of government, such as forward-looking economic policies that benefit all Americans. Another profoundly important result is that it goes to the core of our social fabric.

In many ways we live in an era of great change, filled with hope and opportunity. But this is also an age of anxiety, when families are concerned about economic dislocation and social and moral issues. Too many Americans experiencing all these uncertainties also believe the institutions of government they have historically looked to to find solutions to their problems, are broken. And then, they are more likely to turn to those who offer harsher rhetoric and more extreme courses of action. All this feeds extremism in our society, the extremism we see in some of the militias and hate groups in this nation. At that point, the idea that America is a society where a Constitution and government and people working together can produce progress for all Americans ceases to be.

This negativism about government -- this lack of balance -- also makes it difficult to get public and congressional support for the functions of government, whatever the broader political judgment as to the appropriate scope of government at any given time.

I think it is imperative for the future of our country, that respect for government and public service be re-established, again, whatever the judgment as to the appropriate scope.

In that spirit, I'd like to make three points.

First, government matters. Second, government has very large numbers of talented people committed to public service. And third, government is deeply, broadly and most importantly effectively involved in a reinventing program, just as any business that wants to succeed must be in a constant mode of reinvention to be efficient, effective and customer sensitive.

If I might elaborate.

First, government matters. I will not this evening discuss the wide array of functions government performs that will not be performed in any other way in our market economy and that matter greatly to Americans. But I would like to touch on a few experiences that take this observation from the philosophical to the practical.

Five miles from here as the crow flies is the South Bronx. Those of you who haven't been there lately should go. You will see a vast area of attractive, rehabilitated multi-family housing and new single family housing, and the beginnings of businesses returning and jobs being created. Why? Businesses and communities are coming together with the help of the Community Reinvestment act, the Community Development Financial Institutions Fund, and the Low Income Housing Tax Credit. Government is working, hand-in-hand with the private sector, as the catalyst in addressing what may be our most critical domestic policy issue, the problems of the inner city -- a job no other institution in our society can do.

The people who fish in our nation's streams, swim in our rivers, or for that matter breathe New York City air, know that the air and water are clearer today than 20 years ago. A few years ago, I was flying at low altitude over an area where I go fishing, and you could see the undermining effects of massive developmental disregard of one of the nation's most remarkable natural treasures. And 20 years ago, then Mayor Lindsay talked about not being comfortable breathing air he couldn't see. Today, that national treasure is healing, and New York City's air is appropriately invisible. Government played the critical role in each case, and, in the final analysis, only through government -- directly or as a catalyst -- will adequate environmental protection be accomplished, though obviously this needs to be approached with sensible balance.

Finally, about two years ago, I was interviewed by a European weekly magazine. In the middle of the interview the journalist said that the United States was doing well now, but that 10 or 15 years from now we'd be a second tier economy because of our problems with schools and the inner cities. These are issues that can only be successfully addressed through effective government.

So, government matters. My second point was the people in government. I've now spent almost three and one-half years in government, a year and a half of it at Treasury, and two years in the White House. When people ask me what I find most surprising about government, I invariably say that one of the things that has most struck me is the quality and commitment of so many people I've worked with. In my time at Treasury the people who work with me have done the legal work on a $20 billion loan guarantee for Mexico, fought extraordinarily hard to keep this country out of default, protected the President of the United States, helped investigate the Oklahoma City bombing, made it possible for millions of Americans to file their taxes by telephone, and seized tons and tons and tons of dangerous drugs at our borders. I can tell you from first-hand knowledge and with absolute certainty that the quality of the work and the dedication of the personnel rivals that in any first-rate private sector firm.

My third point is that the federal government -- like the business world -- is now deeply involved in reinvention to make government operate more efficiently and effectively, and to be more customer sensitive.

The federal workforce is the smallest in a generation, and government is in the process of turning from the kinds of institutions many of us have pictured over the years, to agencies bound and determined to do better and, in fact, doing better.

These are the messages we need to carry to the skeptics and the cynics and the people who no longer have confidence in the role of government and public service. We must re-establish respect for the institution of government and for those who serve in government, and for that to happen, the business and professional leadership of this country can and must play a critical role as opinion leaders in our society.

The debate itself on the function and scope of government, and how to improve government, must go on, but it must be conducted in the context of support and respect for government and those in public service, not in an atmosphere of derogation.

If we have your participation, we will honor the idea of public service and serve our country in a far greater way and on a far larger scale than you have honored me this evening.

Thank you, and good night.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

Remarks by
Jeffrey R. Shafer
Under Secretary of the Treasury
Council of the Americas Washington Conference
May 6, 1996

INTRODUCTION

Thank you very much. I am delighted to be here this afternoon.

For the first time, the vision of a democratic, economically liberal, vibrant community of nations stretching from Canada to Chile has become a real possibility. It was to advance that shared vision that the 34 democratically elected leaders of this hemisphere came together in December, 1994 at the Summit of the Americas. They pledged to work to bolster the institutional, social, and political changes that must continue if progress in our hemisphere is to be truly secure, and prosperity shared by all. To anchor economic and social reform, they pledged to conclude negotiation of a Free Trade Area of the Americas by 2005.

To say that a new hemispheric society is within grasp is not to say that there are not profound challenges on the road from here to there. The Mexican financial crisis last year and its reverberations through Latin America reminded us that economic stability is not yet assured. The possibility of political and social turmoil also cannot be dismissed. But a resolute Mexican response to the crisis, supported by a U.S.-led international effort, turned the situation around quickly. Things are different today in the hemisphere.

I would like to review the fundamental economic changes in the Americas leading up to the December 1994 Summit in Miami. I would also like to discuss the crisis that occurred in Mexico later that same month and what it has meant for our hemisphere. Finally, I would like to look forward -- to the steps being taken to advance the Miami agenda, and particularly the economic and financial priorities that Secretary Rubin and his counterparts in the region will address when they meet next week in New Orleans.

RR-1055

MIAMI SUMMIT: BUILDING ON PROGRESS IN A REFORMING HEMISPHERE

There is no question that the past several years witnessed a fundamental shift in Latin America. Countries that for decades looked inward and sought to shelter themselves from the world began to throw open and free up their economies. By doing so, Latin Americans took on competition that they had long hid from and found within themselves the capacities and energy that had not been tapped before.

The old policies of import substitution were discarded, replaced with a commitment to trade liberalization -- often unilateral -- and privatization. Foreign investment has been increasingly welcomed, rather than resisted or feared, as demonstrated by the decision in Brazil last year to eliminate the constitutional distinction between foreign and domestic companies.

Fiscal and monetary restraint have become the hallmarks of responsible economic management throughout the hemisphere. For the region, deficits fell from 6.0% of GDP in 1987 to just 0.2% in 1995 and a projected surplus of over 1% this year. At the same time, inflation has been brought under control; by 1995, the number of countries experiencing inflation rates over 40% dropped to four from ten in 1990. In Peru and Nicaragua, four and five digit inflation rates had been reduced to below 20% -- in Argentina inflation has dropped from over 2000% to under 2%.

While hemispheric policies progressed rapidly over the past decade, deep problems remain. Throughout the region, saving rates remain low, state-ownership of enterprises continue to be a drain on efficiency and financial systems are still too narrow, shallow, concentrated and weak. While economies were growing, they weren't growing fast enough and large portions of the population were not sharing in the benefits of growth. It was clear that deeper structural reforms would be required to address the roots of persistent poverty and inequality in the hemisphere.

MEXICAN CRISIS AND RESPONSE

The crisis in Mexico demonstrated the tremendous work still to be done. It put at risk the progress that had already been achieved, and it put to the test the region's commitment to a forward looking agenda.

The threat to the United States was clear. Emerging market economies -- led by Mexico -- support millions of U.S. jobs. In 1995, Latin America and the Caribbean alone purchased $94 billion of U.S. goods, almost as much as the European Union countries. At the same time, our hopes for a strong Mexican partner on issues ranging from immigration to combating narcotics to improving our shared environment were threatened by the likely political and social fallout from protracted economic distress.

President Clinton recognized the threat to U.S. interests and to the region as a whole.

He responded with leadership of an international emergency support program for Mexico. And with this support, Mexico and countries throughout the region have met last year's challenge.

- In Mexico, adherence to a strict adjustment program has restored economic stability and growth following a determined adjustment. Only 7 months after the crisis began, the government of Mexico regained access to international financial markets and has since placed some $7 billion of medium-term debt. The overhang of short-term tesobono debt is gone. And, last week, Mexico concluded an exchange of Brady bonds for $1.75 billion in uncollateralized 30 year debt, yet another sign that confidence is coming back.

- In the region, Argentina was the next hardest hit by the Mexico crisis, suffering a test of the currency regime, a steep rise in interest rates, and a withdrawal in bank deposits of almost 20%. With IDB and World Bank support, Argentina is addressing its banking crisis with a program for consolidation of commercial banks and privatization of troubled provincial banks. The government also took steps to cut spending and raise taxes to reinforce stability, all just weeks ahead of a presidential election. The depth of popular support for the government's anti-inflation policies was demonstrated when President Menem was re-elected resoundingly.

MOVING FORWARD IN NEW ORLEANS

U.S. and international support for Mexico and the commitment to reform in this region averted a backsliding from earlier economic reforms. It preserved the opportunity to forge ahead with a "second-generation" of needed reforms -- including investment in education, health, and other basic social needs, protection of the environment, and improvement in the institutional foundations for democratic governance and civic society.

Next week in New Orleans, Secretary Rubin and the region's Finance Ministers will explore ways to reinforce economic stability and boost sustainable growth rates. They will focus on means to promote the development of deeper and more diversified financial markets which are needed to raise savings and invest efficiently.

Two challenges for Latin America

To understand why financial market development is so essential, we need to understand the core challenges that Latin America must address if progress, both economic and social, is to be secured. Let me discuss two of the challenges.

First is the need to lock in macroeconomic stability and boost growth rates. If investors are to have confidence, if businesses are to thrive, and if working Latin Americans are to be able to save, prosper, and educate their children, economic volatility and its causes -

- excessive reliance on net resource transfers from abroad to finance investment and stop-go policies -- must be rooted out.

Second is the need to address persistent poverty and income inequality in the region. Latin America suffers from one of the worst records on income distribution in the world. In Brazil, for example, the top 20% of the population earns 32 times as much as the bottom 20%. This compares to a ratio of 11.7 in Malaysia, with a similar income level, and to ratios of about 9 in the United States and 4.3 in Japan. Such inequality means large portions of the population remain outside the formal economic sector and are excluded from the benefits of economic growth.

Success in meeting the first challenge is a prerequisite to meeting the second, although it won't be sufficient by itself. Cycle of inflation and adjustment have taken a terrible toll on the poor of Latin America and the Caribbean. And poverty is likely only to be alleviated in a context of sustained, rapid growth. Macroeconomic policies and financial market development and integration are twin keys to growth and stability. The right kind of financial market development can also broaden economic participation.

Developing, Liberalizing and Integrating Financial Markets

Where financial markets are not developed, money stays bottled up in small circles. Capital resources quite simply cannot be channeled to many of the purposes for which they are needed. Thus, electricity generating plants to power growth throughout an economy go unbuilt, entrepreneurship is confined to those with personal resources or connections, and home ownership is rare. Without vehicles for long-term investment of savings, the supply of capital is constricted and must produce a quick payback. Risk-taking is limited in the absence of the means to diversify risks. In sum, saving and growth will fall short of potential.

Developed and integrated financial markets allow economies to derive more from its capital resources even if saving behavior is not altered by improved saving vehicles. Cementing a vibrant financial infrastructure in Latin America will foster a virtuous cycle of higher growth and saving and broaden opportunities for all citizens to meet their potential.

Throughout Latin America and the Caribbean the legacy of underdeveloped financial markets has acted as a brake on economic activity. The manifestations of this legacy are wide ranging:

- Over the past two years, Mexico, Argentina, Venezuela and Brazil have paid dearly for lax bank supervision and regulation, as well as volatile economic environments, that have produced crises in their banking sectors. These problems are being managed, but at high fiscal costs.

- The limited depth and diversity of markets has restricted access to capital and financial services and thereby limited opportunities for growth. Small- and micro-entrepreneurs pay the highest price for this failure, with only 5% able to access the capital they need.

- Equity markets are underutilized as sources for raising new capital. With the exception of Chile, the ratio of market capitalization to GDP is on the order of one-half or less than in the United States and Canada. And in the region, the top ten stocks account for between a third and a half of stock market capitalization.

- Only relatively short maturities are available in most countries for debt securities, including government issued securities. The absence of medium and long-term debt instruments means that the markets of Latin America and the Caribbean are poorly placed to contribute to the region's vast infrastructure needs, estimated at between $50 - $60 billion a year.

But, throughout the hemisphere, a recognition of the importance of strengthening financial markets is taking hold. For example:

- Since 1990, at least 13 countries have established new or more modern bank laws and regulations, at least five others are implementing major reforms in commercial bank supervision and eight are privatizing state banks.

- Important elements for support of long term finance, such as private institutional savings vehicles, are beginning to emerge. These vehicles, which include pension funds, mutual funds and life insurance products, create pools of professionally-managed funds seeking long-term investment that allow for greater depth and liquidity in capital markets. Chile has taken the lead in the development of privately managed pension funds, with renowned success, and others, including Argentina, Bolivia, Colombia, Peru and Mexico, are following suit.

In New Orleans, the hemisphere's Finance Ministers will examine means to accelerate the pace of financial market development and integration. Guiding their discussions will be a recognition of the critical balance that must be struck between ensuring financial market soundness and investor protection and preserving incentives for innovation.

Sound Macroeconomic policies to support increased growth and savings

A prerequisite to any effective agenda for strengthening financial markets must be an ongoing and fundamental commitment to sound macroeconomic policies in the region. Implementation of and adherence to fiscal and monetary policies that bring inflation down to low levels and keep it there, maintain sustainable fiscal and external balances, increase domestic savings, promote financial stability and foster increased real economic growth must be at the core of this region's agenda. Long-term finance does not take place in an environment of inflation and macroeconomic uncertainty.

Today, saving is the key challenge. Both saving and growth in Latin America are too low. The region grew at a 2.7 percent rate over the last decade -- a rate at which it will take three generations to double per capita income. Latin America's gross domestic saving -- at about 19 percent -- is barely half that of Asia's 37 percent. The resulting dependence on large net foreign capital inflows to finance adequate investment makes economies vulnerable to external and internal shocks. Saving rates in Canada and the United States are even lower.

Governments have it within their means to effect improvements in savings rate by reducing government dissaving. This includes the need to address the hidden deficits imposed by some social security systems -- where the pace of contributions is not keeping up with the growth of future obligations. Chile's experience provides a striking example of the potential results. Though there is some debate over the extent to which Chile's pension reform changed private behavior, it is a fact that national savings in Chile have soared to current levels of 28% after the country instituted private pension funds and opened domestic stock markets to these institutional funds.

Debt Reduction

In some countries in the region, external debt burdens can impair economic growth and development, no matter how sensible current policies are. The United States Government is working to alleviate these burdens along three fronts. For the poorest countries, we are reducing debts owed to governments by as much as two-thirds within the Paris Club. Second, under our new buy back/swap program, we will be able to reduce concessional debts owed by the lower-income countries. In return, they must be willing to contribute local currency funds to underwrite projects that will protect their environment and support child survival. Finally, within the IMF, World Bank and IDB, we are pressing to address the multilateral debts of heavily indebted, poorest countries, and we hope for final decisions on a comprehensive approach by next fall.

Privatization

Privatization also provides an enormous stimulus to capital market development and integration, as well as boosting efficiency in the economy. Governments in Latin America have shed many state-owned enterprises, with good results. Privatized businesses have deepened national securities markets dramatically, and they have produced prime names to attract global investors through listings on the world's leading exchanges. But much is left to be privatized in the hemisphere. Hence, there is reason to be concerned about World Bank estimates that the value of privatized assets has been declining for several years -- proceeds from privatization in Latin America and the Caribbean peaked in 1991 at nearly $18 billion and fell to less than $7 billion in 1994.

Market Integrity

Only governments can undertake the crucial and demanding job of creating the strong regulatory infrastructure that must exist for financial markets to flourish. Investors will seek business in a climate where property rights and rules on commercial transactions are clear and the judicial system delivers judgments swiftly and with integrity when disputes arise. Strengthening prudential oversight and examination processes to ensure the safety, soundness and integrity of banks; establishing clear guidelines for the issuance, trading and settlement of securities; eliminating regulations that limit competition or the scope for diversification; and training and support for the people that are charged with making the system work on an ongoing basis are all key elements to meeting this imperative.

A Culture of Transparency

Transparency -- by both public and private institutions -- is another essential element to advancing this goal. In today's world of portfolio investment and securitized international debt, governments that hold back information expose themselves to sudden shifts in market sentiment because that sentiment is not deeply rooted in economic fundamentals. They are increasingly likely to pay a price in the form of higher interest rates. In the wake of Mexico's liquidity crisis, the IMF has drawn up a set of standards that provides a high benchmark of disclosure well worth striving to meet.

The message to the private sector is the same. High quality and transparent accounting systems, accompanied by appropriate standards for disclosure, will support the ability of companies to attract investors and raise the funds needed to grow. Likewise, by applying rigorously enforced accounting standards, bank examiners may more accurately evaluate and detect earlier the emergence of serious banking difficulties. In conversation after conversation with business and financial people throughout the hemisphere, the absense of high, mutually understandable accounting standards is identified as the key barrier to the development and integration of equity and bond markets in the Americas.

Supporting Microenterprise Development

Improving the infrastructure and operations of financial markets will contribute to reduction of poverty and inequality by expanding access to the capital for all of our nation's citizens. Support for the development of microenterprise -- which account for a large percentage of the employment of the poor, particularly women -- must be a central focus in our efforts to develop financial markets in the region.

Fighting Money Laundering

In this hemisphere, money laundering is a multibillion dollar problem that can undermine financial markets, economic stability and political institutions. At the Summit of the Americas, the leaders of this region recognized this threat and committed to cooperative efforts that would combat the scourge of narcotics trafficking and money laundering. Last December, Secretary Rubin chaired a meeting of Finance Ministers and other high ranking officials of the Summit nations in Buenos Aires to define a coordinated hemispheric strategy to combat money laundering. Since then, the efforts to combat financial crime have intensified with the proposal, passed or adopted legislation to criminalize money laundering and establish strict currency and suspicious transactions reporting rules in many countries in the region, including Chile, Bolivia and Paraguay. Just last week, Mexico passed new legislation criminalizing money laundering.

As more countries make progress in getting laws on the books, it is important to ensure their successful implementation, through, for example, the creation of mechanisms for monitoring financial activities and through training the personnel needed to operate these systems. Clearly, cooperation among governments, through such means as information exchanges, is especially vital. These initiatives will be more effective due to the related efforts in our hemisphere to combat corruption of governments, including the new Inter-American Convention against Corruption.

V. Conclusion

Eighteen months ago, the leaders of our hemisphere committed to cooperation in pursuit of a forward looking agenda of market oriented reform. The crisis in Mexico put that commitment to an immediate test. The ability of the nations of this region to hold fast to their commitments through this crisis speaks to the strength of the foundation that has already been put in place. The region is now prepared to move beyond the crisis -- addressing the lessons learned, taking steps to ameliorate future crises, and moving forward with a program to liberate the resources that will drive private sector led economic development. The stakes are growth and prosperity for them and high paying jobs for Americans as our best markets expand.

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AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

TREASURY PUBLIC DEBT

FOR IMMEDIATE RELEASE
May 7, 1996

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 3-YEAR NOTES

Tenders for $19,011 million of 3-year notes, Series X-1999, to be issued May 15, 1996 and to mature May 15, 1999 were accepted today (CUSIP: 912827X72).

The interest rate on the notes will be 6 3/8%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	6.350%	100.067
High	6.400%	99.933
Average	6.390%	99.960

$5,000 was accepted at lower yields.
Tenders at the high yield were allotted 28%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$38,625,422	$19,011,302

The $19,011 million of accepted tenders includes $876 million of noncompetitive tenders and $18,135 million of competitive tenders from the public.

In addition, $1,695 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $2,602 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

THE DEPARTMENT OF THE TREASURY 1789

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M. May 7, 1996	CONTACT: Office of Financing 202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $27,000 million, to be issued May 16, 1996. This offering will result in a paydown for the Treasury of about $1,650 million, as the maturing weekly bills are outstanding in the amount of $28,653 million.

Federal Reserve Banks hold $7,015 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $4,128 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

RR-1057

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED MAY 16, 1996

May 7, 1996

Offering Amount	$13,500 million	$13,500 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 3D 4	912794 2A 1
Auction date	May 13, 1996	May 13, 1996
Issue date	May 16, 1996	May 16, 1996
Maturity date	August 15, 1996	November 14, 1996
Original issue date	February 15, 1996	November 16, 1995
Currently outstanding	$13,804 million	$18,870 million
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:	
Noncompetitive bids	Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids
Competitive bids	(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%. (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater. (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.
Maximum Recognized Bid at a Single Yield	35% of public offering
Maximum Award	35% of public offering
Receipt of Tenders:	
Noncompetitive tenders	Prior to 12:00 noon Eastern Daylight Saving time on auction day
Competitive tenders	Prior to 1:00 p.m. Eastern Daylight Saving time on auction day
Payment Terms	Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

AUCTION RESULTS

PUBLIC DEBT NEWS

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FOR IMMEDIATE RELEASE
May 8, 1996

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 10-YEAR NOTES

Tenders for $14,002 million of 10-year notes, Series B-2006, to be issued May 15, 1996 and to mature May 15, 2006 were accepted today (CUSIP: 912827X80).

The interest rate on the notes will be 6 7/8%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	6.890%	99.893
High	6.906%	99.779
Average	6.902%	99.807

Tenders at the high yield were allotted 97%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$33,529,802	$14,002,334

The $14,002 million of accepted tenders includes $413 million of noncompetitive tenders and $13,589 million of competitive tenders from the public.

In addition, $300 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $1,700 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

The minimum par amount required for STRIPS is $320,000. Larger amounts must be in multiples of that amount.

PUBLIC DEBT NEWS

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FOR IMMEDIATE RELEASE
May 8, 1996

Contact: Peter Hollenbach
(202) 219-3302

STUDENT ARTISTS TO BE HONORED BY TREASURY MAY 16

Treasury's Bureau of the Public Debt today announced that three student artists will be honored Thursday, May 16, in Treasury Department ceremonies. The three, two-sixth graders and one fifth grader from Iowa, New Jersey and Hawaii are the winners of the annual U.S. Savings Bonds National Student Poster Contest for students in grades 4 though 6.

The first place winner, Dawn Larson, a sixth-grader from Charter Oak - Ute Community School, Ute, Iowa, will receive a $5,000 U.S. Savings Bond and her poster will be used to promote the sale of bonds nationwide in 1997.

"U.S. Savings Bonds - A Great Way To Save", the theme of this year's poster contest, also will be the 1997 Savings Bonds Campaign slogan.

The second and third place winners, Gavin Gewecke, a fifth-grader at St. Joseph Regional School, Newton, New Jersey and Lee Anne Mathews, a sixth-grader at Stevenson Intermediate School, Honolulu, Hawaii, will receive $2,000 and $1000 in bonds respectively. Their work will appear on special exhibits to be displayed in airports around the country.

Treasurer of the United States Mary Ellen Withrow will entertain the winners at a luncheon and will present the awards at a 1 p.m. ceremony in the Cash Room of the Main Treasury Buildng.

Joseph T. Gorman, Chairman and Chief Executive Officer of TRW Inc., Cleveland, Ohio, said the contest "teaches children to save for the future and helps enhance the value of a long term savings plan to help them reach future goals." Mr. Gorman chaired the 1995 U.S. Savings Bond Volunteer Committee.

State winners were selected earlier this year. First place entries from each state and the District of Columbia then were submitted to a panel of judges for selection of the national winners.

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The panel of judges included: Harry Rand, Senior Curator of Painting and Sculpture, National Museum of American Art, Smithsonian Institution; Dr. Leslie King-Hammond, Dean of Graduate Studies, Maryland Institute, College of Art; Ms. Toni McMahon, President and CEO, Arts Council of Fairfax County, and Roger Tomhave, Art Curriculum Specialist, Fairfax County Public Schools.

The three winners will be flown to Washington for the awards ceremony. They will tour the city and visit their congressional representatives. First place posters from each State and the District of Columbia will be displayed at the Treasury's Bureau of Engraving and Printing in Washington during the summer.

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TREASURY NEWS

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FOR IMMEDIATE RELEASE
May 9, 1996

Contact: Rebecca Lowenthal
(202) 622-2960

U.S. TREASURY CONFERENCE TO BRING MILLIONS IN CONTRACTS TO SMALL, MINORITY & WOMEN-OWNED BUSINESSES

Sixth "Partnerships" Event in Three Years Focuses on Midwest

The U.S. Department of the Treasury will host a conference June 13 designed to bring government business directly to historically underutilized businesses around the country.

PARTNERSHIPS '96 - Chicago will be held on June 13, 1996, at the Rosemont Convention Center in Rosemont, Illinois, from 7:30 a.m. to 4 p.m.

Procurement personnel from Treasury's 12 bureaus will be on hand to discuss their small business programs, as well as accept quotations in existing federal procurement opportunities, the majority of which are expected to be for ADP equipment/supplies and office supplies. Past PARTNERSHIPS conferences have offered from $1-3 million in immediate procurement opportunities.

The conference will also feature seminars on: (1) how to do business with the federal government; (2) large business partnerships; (3) professional support service requirements; and (4) Treasury streamlining initiatives. The Department's prime contractors, large businesses, and other federal, state and local government entities have been invited to bring additional business opportunities as well as discuss prime and subcontracting procurement opportunities on Treasury and other contracts.

Contracts of up to $25,000 may be awarded on-the-spot using the government VISA purchase card. Business representatives prepared to do business may leave this conference with awards from the Internal Revenue Service, U.S. Customs Service, Bureau of Alcohol, Tobacco and Firearms and other Treasury bureaus. Additional contracts will be issued within 10 working days, demonstrating Treasury's commitment to faster, more efficient procurement which makes it easier and more desirable to become a business partner with Treasury.

(more)

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"Treasury's interest in a strong economy applies to our own contracting activities. We support competitive bidding for our contracts, and encourage participation by small, minority and women-owned businesses," said George Muñoz, Treasury's Assistant Secretary for Management and Chief Financial Officer.

The registration fee for small businesses is $75 per person if registered before May 31, 1996, and $100 per person thereafter. Companies wishing to attend the conference should call U.S. Treasury at (202) 622-0530 for registration details. Businesses interested in sponsoring a booth should contact Guiterrez Productions, Inc., (312) 595-1955, for additional information.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
MAY 9, 1996

CONTACT: Calvin Mitchell
202-622-2920

TREASURY ANNOUNCES PROPOSED SIMPLIFICATION OF BUSINESS CLASSIFICATION RULES

The Treasury Department and the Internal Revenue Service announced today that they were issuing a proposed regulation (commonly known as the "check-the-box" regulation) that would replace the existing fact-intensive classification regulations with a simplified regime that will generally allow unincorporated businesses simply to elect to be taxed as partnerships or corporations. The proposed regulation will generally apply to domestic and foreign unincorporated business entities, including limited liability companies (LLCs).

The Treasury Department and the Internal Revenue Service previously announced on April 3, 1995, that they were considering a proposal that would greatly simplify the current rules for classifying unincorporated business organizations either as partnerships or associations taxable as corporations for federal tax purposes. (Notice 95-12, published in the Internal Revenue Bulletin (1995-1 C.B. 297)). The proposal received widespread support, both in written responses to the Notice and at a public hearing held on the proposal. The proposed regulation represents the next step in implementing this proposal.

The new "check-the-box" regulation will replace the existing classification regulations that attempt to classify business organizations based on the historical differences between partnerships and corporations under local law. The existing regulations have become extremely difficult to apply because many states have revised their statutes to allow partnerships and other unincorporated entities to possess many of the characteristics that have traditionally been associated only with corporations. As a result of these changes, there is no longer any meaningful distinction for tax purposes between partnerships and corporations. The IRS and thousands of taxpayers, however, continue to spend considerable resources in determining the classification of business entities under the existing regulations. The proposed regulation would eliminate this

RR-1061

burden, and in particular would greatly assist the many small unincorporated businesses that cannot afford to commit the resources necessary to comply with the current regulations.

The proposed regulation represents an important step in the continuing effort of the Administration to reinvent the regulatory process of the federal government. This regulation reflects the Administration's commitment to simplifying the tax rules.

The proposed regulation will be published in the Federal Register on May 13, 1996. The IRS is requesting views on the proposed regulation before it is finalized and will hold a public hearing on the regulations on August 21, 1996, at 10:00 a.m. in the IRS auditorium at 1111 Constitution Ave. N.W., Washington, DC.

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AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 9, 1996

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 36-DAY BILLS

Tenders for $13,045 million of 36-day bills to be issued May 15, 1996 and to mature June 20, 1996 were accepted today (CUSIP: 912794Z49).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.04%	5.14%	99.496
High	5.05%	5.15%	99.495
Average	5.05%	5.15%	99.495

Tenders at the high discount rate were allotted 34%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$57,628,000	$13,045,400
Type		
Competitive	$57,625,000	$13,042,400
Noncompetitive	3,000	3,000
Subtotal, Public	$57,628,000	$13,045,400
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$57,628,000	$13,045,400

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

Update: May 8, 1996

MEDIA ADVISORY

Meeting of Western Hemisphere Finance Ministers
Hosted by the United States of America
New Orleans
Friday, May 17, and Saturday, May 18, 1996

The following is an updated schedule and additional press information on the meeting of finance ministers from the 34 democratic countries in the Western Hemisphere that U.S. Treasury Secretary Robert Rubin will host in New Orleans on Friday, May 17, and Saturday, May 18.

This tentative press schedule and summary of press arrangements for the meeting is for planning purposes only.

Unless otherwise noted, all events are at Gallier Hall, 545 St. Charles Avenue.

This advisory will be updated.

Wednesday, May 8

3-4 p.m. Interactive Worldnet program on New Orleans conference with Under Secretary for International Affairs Jeffrey Shafer from Washington.
Worldnet contact: Yolanda Commodore, (202) 501-6624.

Wednesday, May 15

11 a.m. Secretary Rubin press briefing on conference.
Location: U.S. Treasury Department, Room 4121.

Thursday, May 16

9 a.m - 6 p.m. Press credentials available for pickup at the New Orleans Marriott, 555 Canal Street.

Friday, May 17

8:30-10:30 a.m. Riverboat tour and press briefing on international trade and Port of New Orleans hosted by MetroVision Economic Development Partnership.

Note: Space is limited to first 15 journalists to respond. A shuttle will be available for transportation from Marriott to boat tour and briefing, then from the briefing to Secretary Rubin's arrival statement.

Contact: Tom Hohan of MetroVision at (504) 527-6951 by Tuesday, May 14.

9 a.m. International Press Center opens at Gallier Hall.
Press credentials available for pickup.

TBD Arrival statement by Secretary Rubin.
Location: New Orleans International Airport.

2:30-5:30 p.m. Inter-American Development Bank seminar on Liberalization, Development and Integration of Financial Markets in the Americas. Participants will include a group of finance ministers and private sector representatives from throughout the Western Hemisphere.
Press: Open.
Location: Gallier Hall, 545 St. Charles Avenue

6-7 p.m. Reception hosted by the City of New Orleans and Louisiana officials. This will include brief remarks by local officials and Secretary Rubin.
Press: Credentialed press are invited to the reception; a riser area will be provided for working press.
Location: New Orleans Museum of Art, City Park, 1 Collins Diboll Circle.

Saturday, May 18

8 a.m. Press Center opens

8:15 a.m. Cameras set up at Gallier Hall for arrivals

9-9:30 a.m. Delegation arrivals.

9:30 a.m. -12:30 p.m.	Plenary session. Press: Opening remarks only; may be pooled. Media will be escorted from/to International Press Center at 9:15 a.m.
12:40 p.m.	Group photo of finance ministers. Press: Open.
2:30-3:45 p.m.	Plenary session.
3:15 p.m.	Setup for concluding press conference
4 p.m.	Concluding press conference.
5-7 p.m.	Reception hosted by World Trade Center and other New Orleans business groups. Location: World Trade Center, 2 Canal Street. Press: Credentialed press are invited to the reception; a riser area will be provided for working press.
8 p.m.	International Press Center closes.

Credentials. Press credentials are required for all media covering the meeting. An application for press credentials is attached.

U.S. press based in the United States should apply for credentials through the Treasury Public Affairs Office. International press based in the United States should apply through the U.S. Information Agency's Foreign Press Center in Washington. Press based in countries other than the United States should apply through the USIS office in that country.

International Press Center. The International Press Center will be open from 9 a.m. Friday, May 17, until 8 p.m. Saturday, May 18, at Gallier Hall, ground floor. The press center, open to credentialed reporters, will make available official schedules, press releases, information on events open to press coverage, transcripts and background information.

The press center will have a limited number of international credit and calling card telephone lines. Reporters wishing to reserve a dedicated telephone line in the press center should call Naomi Thomas of SouthCentral Bell at (504) 528-7508 or (504) 592-1317.

Shuttle buses. Shuttle buses will provide transportation between conference locations for credentialed delegates, staff and press.

Accommodations. The New Orleans Marriott Hotel, the conference headquarters, is booked. Press wishing to be placed on a waiting list for rooms at the Marriott should return the attached form but should make alternate arrangements. New Orleans has many hotels in all price ranges, although May is a popular time for the city and available rooms are limited. The New Orleans Metropolitan Convention and Visitors Bureau at (504) 566-5005 can help secure rooms.

Contacts.
U.S. Treasury/Washington
Chris Peacock, Michelle Smith or Phyllis Kayson at (202) 622-2960, fax: (202) 622-1999

U.S. Information Agency/Foreign Press Center
Jonathan Baker at (202) 724-0040, fax: (202) 724-0007
Peter Brennan at (202) 622-2854, fax (202) 622-2854, e-mail pbrennan@usia.gov

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AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 13, 1996

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,596 million of 13-week bills to be issued May 16, 1996 and to mature August 15, 1996 were accepted today (CUSIP: 9127943D4).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.98%	5.11%	98.741
High	5.02%	5.16%	98.731
Average	5.02%	5.16%	98.731

Tenders at the high discount rate were allotted 53%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$56,983,832	$13,595,836
Type		
Competitive	$51,885,518	$8,497,522
Noncompetitive	1,442,129	1,442,129
Subtotal, Public	$53,327,647	$9,939,651
Federal Reserve	3,515,485	3,515,485
Foreign Official Institutions	140,700	140,700
TOTALS	$56,983,832	$13,595,836

4.99 -- 98.739 5.00 98.736 5.01 -- 98.734

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 13, 1996

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,683 million of 26-week bills to be issued May 16, 1996 and to mature November 14, 1996 were accepted today (CUSIP: 9127942A1).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.13%	5.34%	97.407
High	5.14%	5.35%	97.401
Average	5.14%	5.35%	97.401

Tenders at the high discount rate were allotted 21%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$59,078,191	$13,682,910
Type		
Competitive	$51,538,815	$6,143,534
Noncompetitive	1,249,476	1,249,476
Subtotal, Public	$52,788,291	$7,393,010
Federal Reserve	3,500,000	3,500,000
Foreign Official Institutions	2,789,900	2,789,900
TOTALS	$59,078,191	$13,682,910

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

UNDER SECRETARY

May 7, 1996

The Honorable James A. Leach
Chairman
Committee on Banking and Financial Services
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The Administration is committed to increasing access to credit by creditworthy borrowers in underserved communities across America. That is why we reformed regulations under the Community Reinvestment Act and have vigorously resisted attempts to weaken the CRA. In response to these and other efforts, the private sector has made enormous strides in expanding lending to underserved communities. Thus, for example, mortgage lending to minorities increased markedly in 1994, the latest year for which data are available. The last thing anyone should want to see happen is for abusive lenders to undermine these gains by taking advantage of borrowers with unconscionable rates, terms, and practices. Yet section of 537 of H.R. 2520, the Financial Services Competitiveness and Regulatory Relief Act of 1995, would do just that.

In lengthy articles published on May 5 and May 6, *The Washington Post* has highlighted the potential for abuse involved in aggressive high-rate lending to low-income borrowers. Without commenting on the specific allegations of those articles, I want to emphasize how section 537 would exacerbate that potential for abuse. (I note that S. 650 contains no similar provision.)

The Riegle Community Development and Regulatory Improvement Act of 1994 sought to curb such abuses by requiring additional disclosure, and by limiting such credit terms as balloon payments, negative amortization, and prepayment penalties. The rules apply to certain mortgage transactions (1) with annual percentage rates exceeding by more than 10 percentage points the yield on Treasury securities with a comparable maturity (e.g., if the Treasury yield were 7 percent, the rules would apply only to mortgages with rates exceeding 17 percent); or (2) with points and fees exceeding the greater of 8 percent of the loan amount (i.e., 800 basis points) or $400.

Section 537 of H.R. 2520 -- approved by the Committee and now pending before the House -- would gravely weaken these protections. Specifically, it would exempt first liens, even if those liens simply refinance existing indebtedness. As I pointed out in a letter to you dated October 25, 1995 (copy enclosed), "the refinancing of first mortgage loans was a fertile source of the very abuses the [safeguards] were designed to prevent. Indeed, many of the scam artists' worst abuses involved precisely such first mortgage refinancings, which are not generally subject to usury laws."

The *Post* articles refer to a lender's practice of usually requiring that "existing mortgages or liens on the property . . . be paid off," and ensuring that the lender obtains a first lien on the property. Section 537 would exempt such transactions from the safeguards of current law.

The *Post* articles raise questions about the adequacy of existing safeguards, and certainly underscore the importance of dropping section 537 from the bill.

More broadly, as you know from our earlier communications on this legislation, we continue to have serious concerns about other aspects of the bill. These other provisions would impair important protections for consumers and communities, and for the safety and soundness of FDIC-insured depository institutions, and in other respects would retard, rather than advance, financial modernization. We share your desire to eliminate needless regulatory burdens, and urge you to correct the provisions of the bill discussed in our October 25 letter.

Sincerely,

John D. Hawke

John D. Hawke, Jr.
Under Secretary of the Treasury
for Domestic Finance

Enclosure

Identical letter sent to the Honorable Henry B. Gonzalez

DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

October 25, 1995

The Honorable James A. Leach
Chairman
Committee on Banking and Financial Services
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing to express the Administration's concerns about H.R. 2520, the Financial Services Competitiveness and Regulatory Relief Act of 1995 (for simplicity, "the bill"). The bill incorporates most of H.R. 1062 and H.R. 1858 as reported by the Committee on Banking and Financial Services.

As Secretary Rubin has stated, the Administration strongly supports modernizing and strengthening the competitiveness of our financial system and eliminating needless regulatory burdens. Over the past three years, we have taken numerous steps to eliminate barriers to financial innovation, promote open competition in financial services, and reduce the costs -- and improve the quality -- of depository institution regulation. We have relieved regulatory burdens without compromising safety and soundness, jeopardizing the federal deposit insurance funds, or impairing protections for consumers and communities.

We support repeal of the Glass-Steagall Act, just as we supported the groundbreaking Interstate Banking and Branching Efficiency Act of 1994. We support responsible regulatory-burden relief legislation, just as we supported such reforms in the Community Development and Regulatory Improvement Act of 1994.

But we cannot support this bill in its current form.

On June 29, 1995, Secretary Rubin informed you that if H.R. 1858, now a main component of this bill, were presented to the President in its current form, he would recommend a veto.

Despite some modest improvements in that component of H.R. 2520, the bill remains deeply flawed, and the remainder of the package contains additional provisions about which we have grave reservations and as to which we have previously stated our strong opposition.

To begin with, the bill would burden Glass-Steagall repeal with rigid micromanagement. It would:

- impose arbitrary restrictions on the form in which banks can do business – restrictions that would tend to:
    - create regulatory burdens without contributing meaningfully to safety and soundness;
    - impede free-market competition;
    - hinder innovation in important and growing product areas;
    - draw capital out of banks; and
    - deprive banks of opportunities for diversification that, within limits and subject to appropriate supervision, would strengthen banks in the long term by lowering the variability of their returns and thereby lowering their overall risk;
- make a single federal agency the gatekeeper for much of the future product innovation of the entire banking industry (whether nationally chartered or state chartered);
- discriminate against the national bank charter by allowing wholesale financial institutions to have only state charters; and
- not provide a real two-way street for :companies engaged in financial activities to affiliate with banks.

Second, the bill would impose unwarranted and discriminatory restrictions on national banks' insurance activities -- insurance activities that are safe, sound, and good for consumers.

Third, the bill would weaken the Community Reinvestment Act (CRA). Far from leaving the CRA essentially intact, the bill would do it real damage. To begin with, the bill would prevent effective implementation of new rules that represent the most significant reforms of the CRA process in the Act's 18-year history. These rules, adopted after one of the most extensive rulemaking proceedings ever conducted by the financial regulatory agencies, focus not on process but on depository institutions' actual lending performance.

The bill would also sharply curtail existing opportunities for persons concerned about a depository institution's record of serving its community to comment on proposals by the institution's parent company to merge existing institutions or acquire new ones. The bill would thus insulate from CRA review much of the expected wave of interstate mergers and consolidations under the Interstate Banking and Branching Efficiency Act of 1994. As long as certain modest criteria are met, these transactions could follow expedited procedures giving interested persons no notice of the proposed transaction and thus no timely opportunity to voice concerns and offer supporting evidence. The Administration strongly opposes weakening the CRA.

Fourth, the bill could undermine informational safeguards against racial and gender discrimination -- by substantially reducing (by at least one-third) the number of financial institutions reporting on mortgage lending, and by authorizing regulators to further reduce or even eliminate such reporting.

Fifth, the bill would undercut important protections for the safety and soundness of FDIC-insured depository institutions. The bill would, for example:

- exempt outside directors of FDIC-insured depository institutions from the federal banking agencies' enforcement authority unless the directors were shown to have acted knowingly or recklessly, thus hindering effective enforcement and creating perverse incentives for outside directors to overlook potential problems at their institutions;

- permit FDIC-insured depository institutions to make preferential loans, including loans with below-market interest rates or abnormal risks, to directors and executive officers of affiliated companies; and

- eviscerate the current requirement that all large FDIC-insured institutions' boards of directors have audit committees independent of their management.

Sixth, at a time when foreign bank supervision too often falls short of U.S. norms, the bill would also potentially weaken the legal safeguards necessary to ensure that foreign banks entering the United States receive adequate supervision from their home countries.

We have set forth these and other concerns about the bill more specifically in an appendix to this letter. A separate letter to you from the Department of Justice addresses some of the matters discussed in this letter, as well as other concerns the Administration has about H.R. 1858.

Without major revisions, H.R. 2520 will represent a lost opportunity to achieve meaningful reform. Instead of creating a truly forward-looking structure for financial modernization, it would provide only limited Glass-Steagall relief, benefitting a handful of large institutions, at the cost of imposing on most institutions rigid organizational constraints not necessary for safety and soundness. Instead of striking a careful balance between the costs and benefits of regulation, it would needlessly undermine protections for communities, consumers, and safety and soundness.

We would be glad to work with you and other Members to resolve the Administration's concerns about the bill. We continue to support constructive, responsible legislation to modernize our financial system and reduce regulatory burdens.

Finally, I want to re-emphasize the importance of prompt Congressional action to resolve the problems of the Savings Association Insurance Fund and thereby protect the taxpayers who stand behind that Fund. Both the House and the Senate Banking Committees have approved essentially the same plan for recapitalizing SAIF and paying interest on FICO bonds. That plan, which you have supported in the past, should not be reopened at this late stage.

Sincerely,

John D. Hawke

John D. Hawke, Jr.
Under Secretary of the Treasury
for Domestic Finance

cc: The Honorable Newt Gingrich
The Honorable Richard K. Armey
The Honorable Tom DeLay
The Honorable Richard A. Gephardt
The Honorable David E. Bonior
Members of the Committee on Rules

Identical letter sent to the Honorable Henry B. Gonzalez

PRINCIPAL CONCERNS ABOUT H.R. 2520

Glass-Steagall Repeal

The bill would have the effect of forcing currently permissible activities out of banks and into nonbank affiliates. For example, a bank affiliated with a securities affiliate could no longer underwrite or deal in *any* securities backed by the bank's own assets. This would set back the goal of enhancing small- and medium-sized businesses' access to capital -- which should be an important objective of this legislation. Chairman Greenspan, among others, has stressed that securitizing assets provides banks important flexibility that enhances their safety and soundness, including their ability to manage their liquidity.

In addition, a bank would be forced to conduct municipal revenue bond underwriting and dealing in an affiliate. This restriction is particularly detrimental to States and local communities that would benefit most by bank competition for this business. Further, all banks would be effectively required to move securities brokerage activities out of the bank (with certain limited exceptions).

Forcing these activities out of the bank would not render it safer or sounder. It would impede diversification, make asset and liability management more expensive and cumbersome, and tend to divert income from securities activities from the bank to its nondepository affiliates. The costs and operational problems raised by compelling the use of a holding company structure would undermine the ability of many regional and mid-sized banking organizations to engage in newly authorized activities on a competitive basis, thus depriving these institutions of the benefits of the legislation, and depriving the marketplace of the benefits of enhanced competition.

The bill would also hinder future product innovation by giving a single federal regulator exclusive authority to control the development and offering of new financial products by banking organizations. The Federal Reserve alone would, for example, determine for all banks what is a "banking product" eligible to remain in the bank and which products would be forced into a nonbank affiliate. Under the bill, the Federal Reserve need not even consult with the bank's primary federal or state regulator. All told, the bill embodies the very approach that Chairman Greenspan warned against only last year: a monolithic regulator that "would inevitably drift to increasing day-to-day control of banking organizations who would soon become less innovative and competitive -- a severe loss to the nation."

We oppose the provision of the bill that would prohibit financial institutions from countries that discriminate against U.S. financial institutions from qualifying as investment bank holding companies or being exempt from firewalls. The provision would not provide an appropriate role for the Administration in determining whether a country is discriminating against U.S. firms, nor would it adequately accommodate existing international obligations.

Insurance Powers of National Banks

We object to the provisions of the bill that roll back the lawful insurance activities currently conducted by national banks and limit the Comptroller of the Currency's authority to approve further insurance activities consistent with the National Bank Act.

For three decades -- and eight Administrations, of both parties -- the Office of the Comptroller of the Currency has permitted the gradual entry of banks into new areas of insurance activity, consistent with the National Bank Act and as upheld repeatedly by the courts. Many states have long allowed state-chartered banks to engage in insurance activities. Overall, bank insurance activities have strengthened the banking system by diversifying banks' sources of earnings without increasing their risk, and have benefitted consumers by enhancing market competition.

Restricting national bank insurance activities would undermine the dual banking system and needlessly inject the government into the workings of the free market. These provisions would neither further the safety and soundness of the banking system nor promote competition.

Provisions of the bill that purportedly prevent discrimination against national banks are illusory. For example, the bill would leave states free to impose rules that had the *effect* of discriminating against national banks. It would explicitly authorize states to treat national banks differently than all other insurance brokers and agents if the state could point to a "legitimate and reasonable" state regulatory purpose -- a standard easily met. And it would let each state insurance regulator define what constitutes "insurance products" for purposes of federal banking law, regulate the activities in question, and leave the Comptroller unable to define those activities as incidental to banking. The result would be a plethora of litigation and a 50-state patchwork of legal requirements that would unjustifiably disadvantage national banks.

Including a sunset date in the bill does not render these discriminatory, anticompetitive restraints on trade any more defensible. Short term fixes frequently become long-term fixtures in federal law. In any event, the insurance restrictions would breach a pledge Congress took in 1987 "not to renew or extend" similar provisions. Public Law No. 100-86, § 203(b), 101 Stat. 552 (1987).

Community Reinvestment Act

There is no need to amend the Community Reinvestment Act. The federal banking agencies, in comprehensively rewriting their CRA rules after the most extensive rulemaking proceeding in their history, considered and resolved the problems of the old CRA process -- the very problems that gave rise to the CRA provisions of the bill. The carefully balanced reforms adopted by the agencies provide incentives for depository institutions to serve all our communities, and a streamlined, straightforward process for assessing their success. These regulatory reforms deserve a chance to work.

The new rules eliminate the unproductive paperwork burden associated with the old CRA rules. Eighty-one percent of banks and thrifts will have a streamlined examination with no reporting requirements beyond those otherwise applicable and virtually no documentation of performance beyond what the institutions would otherwise do in the ordinary course of business. Special purpose institutions will have examination procedures tailored to their business strategies. And any institution can develop its own strategic plan providing for a customized CRA examination.

The new rules should reduce the likelihood of delays. The rules will encourage community input during CRA examinations (and in the formulation of strategic plans), and not just when applications are pending. And by focusing on hard data about lending, services, and investments, the rules will narrow the issues over which institutions, regulators, and community groups can disagree, and reduce the likelihood that a protest will raise new information that delays application-processing.

Undercutting new CRA rules

The new CRA rules -- stressing performance, not paperwork -- scrapped the unproductive paperwork requirements of the old subjective, process-oriented CRA system. But the rules do rely on certain modest data-collection provisions of current law to provide some objective information about depository institutions' performance

The bill would destroy this balance -- and prevent effective implementation of the new rules -- by effectively prohibiting the regulators from requiring institutions to keep or report data for CRA purposes. In so doing, the bill would strike at the heart of a performance-based CRA. It would be very difficult to evaluate institutions' performance without analyzing data, for example, on small business or housing lending.

De facto safe harbor

An institution's obligation under the CRA to meet the credit needs of its entire community can be enforced only through the application process -- when regulators consider depository institutions' record of serving their communities in the course of reviewing their applications to engage in such major transactions as mergers. Unlike many other banking laws, this CRA obligation cannot be enforced through cease-and-desist orders, civil money penalties, or the like.

Thus the bill would gravely weaken the CRA by dispensing with current requirements for public notice and opportunity for comment on institutions' proposals to engage in major transactions, such as most mergers and consolidations under the Interstate Banking and Branching Efficiency Act of 1994 -- in effect, insulating institutions from meaningful review under the CRA. Persons concerned about an institution's performance would have no notice of the proposed transaction, and thus no timely opportunity to voice their concerns and offer supporting evidence. In this respect, the bill would have much the same effect as section 124 of H.R. 1858 -- a highly controversial provision omitted from this bill.

We support streamlining the process by which regulators review proposed transactions. We would, however, give regulators 30 days to review notices of proposed transactions and decide whether to require an application. The time periods proposed in the bill are so unrealistically short that they could promote disrespect for the law and confusion about what had or had not been approved.

To preserve current opportunities for review of an institution's record of serving its community, we would retain existing publication requirements; give interested persons an opportunity to comment on the institution's CRA record; and require that the institution file an application if regulators receive a substantial CRA protest.

The bill would exempt mergers of depository institutions controlled by the same bank holding company from the Bank Merger Act. We support the opposite approach: reviewing such mergers under the Bank Merger Act, and expressly exempting them from review under the Bank Holding Company Act, consistent with Federal Reserve regulations in effect since 1984. 12 C.F.R. §225.12(c). We would not require Bank Merger Act review of competitive effects, since such mergers of affiliated institutions do not affect competition.

Discrimination in Lending

The Home Mortgage Disclosure Act (HMDA) is a key tool for monitoring race and gender discrimination and non-discrimination in mortgage lending and for alerting financial institutions to possible discriminatory practices in their own operations. HMDA requires institutions with $10 million or more in assets to report data related to home mortgage loans.

We strongly oppose increasing the reporting threshold to $50 million, which would reduce by at least one-third the number of financial institutions reporting under HMDA and could severely curtail data regarding nondepository mortgage lenders (e.g., mortgage banks), which play an increasingly important role in mortgage finance but which tend to be much smaller than banks and thrifts. This 400 percent increase in the threshold would far outstrip inflation (176 percent since HMDA's enactment in 1975; 21 percent since HMDA's expansion to nondepository lenders in 1989). It would, moreover, disregard the developments in computer technology that have actually *reduced* the cost of compliance.

We even more strongly oppose authorizing the Federal Reserve to exempt larger institutions from HMDA reporting. Regulators should not be free to exempt out of existence this important tool against discrimination.

Safety and Soundness

The bill would, without justification, undercut important safety-and-soundness protections of current law.

Directors' and officers' responsibilities

The bill would exempt outside directors from the federal banking agencies' enforcement authority (and from liability to the FDIC as deposit insurer) unless the directors were shown to have acted knowingly or recklessly. This standard would create perverse incentives for outside directors to overlook potential problems at their institutions. Moreover, there is no sound basis for having different enforcement standards for inside and outside directors.

Insider lending

The bill would make several unwarranted changes in current safeguards against insider self-dealing. For example, it would give the Federal Reserve broad discretion to permit any FDIC-insured depository institution to make preferential loans to directors or executive officers of any subsidiary of the same holding company -- as long as the insider is not a policymaker at the particular institution making the loan and the subsidiary holds less than 10 percent of the holding company's consolidated assets. Thus, Bank A could make preferential loans to top officers of Bank B, Bank B could make preferential loans to top officers of Bank A, and both banks could make preferential loans to top officers of the holding company's securities affiliate.

The bill would also repeal record-keeping requirements that facilitate scrutiny of preferential lending to insiders of correspondent institutions. Thus, due to the reduced risk of detection, there would be an increased probability that Bank C could make preferential loans to Bank D's CEO, who could keep Bank D's correspondent balances at Bank C on terms favorable to Bank C. As the Banking Committee noted when proposing the current requirements, "Many bank regulators and some U.S. attorneys have been concerned for many years about the possible misuse of bank funds through correspondent accounts. At times, such accounts have appeared to be little more than a means of securing loans for bank insiders rather than being balances used to provide check clearing and other services associated with the correspondent relationship." *Financial Institutions Regulatory Act of 1978*, H. Rep. No. 1383, 95th Cong., 2d Sess. 13 (1978).

Independent audit committee

Current law, as implemented by the FDIC, requires FDIC-insured institutions with more than $500 million in assets to have audit committees independent of their management. The audit committee is typically the principal point of contact between the institution's board of directors and its own internal auditors. Internal auditors -- who are, of course, employees of the institution -- must be able to communicate their concerns and findings to the board without control by, or fear of reprisal from, the very management whose actions they may be reviewing. Allowing management directors to sit on the audit committee would compromise the effectiveness of this process. Accordingly, the law requires that audit committees consist of outside directors – independent of the institution's management.

Yet the bill would exempt well-capitalized and well-managed institutions from this requirement -- without any showing that the requirement is not cost-effective or that such institutions have been unable to find qualified outside directors.

We can support giving regulators some case-by-case discretion to make hardship exceptions, under carefully defined circumstances, for a limited number of positions on the audit committee. But the institution should have to make a true showing of hardship (i.e., that it cannot find qualified outsiders to serve on the audit committee), and the number of positions excepted should be no larger than strictly necessary.

Foreign Banks

To help protect Americans from abuses such as those of BCCI, Congress required that foreign banks entering the United States be subject to comprehensive consolidated supervision by their home countries. The bill would literally give regulators discretion to let a foreign bank enter the United States if its home-country supervisor were merely "working to establish arrangements" for such supervision -- even if the foreign country made no actual progress towards achieving effective supervision.

The Administration supports striking an appropriate balance between preserving prudently firm statutory standards and correcting unwarranted barriers to entry in the current approval process. Thus the Administration has proposed authorizing the Federal Reserve to permit entry by a foreign bank whose home country subjects it to substantial consolidated supervision and is making demonstrable progress toward achieving comprehensive consolidated supervision. Having once found that a country provided such supervision, the Federal Reserve would not (as under current law) need to repeat the exercise with similar banks from the same country.

In reviewing a foreign bank application, the Federal Reserve should be expressly required to consider whether the foreign bank has adopted or is implementing procedures to combat money laundering.

High-Cost Mortgages

The high-cost mortgage provisions of the Truth in Lending Act (enacted in 1994) respond to serious abuses involving aggressive home-mortgage lending that harms unsophisticated borrowers through exorbitant rates and other sharp practices. These rules require additional disclosure, and limit such credit terms as balloon payments, negative amortization, and prepayment penalties. The rules apply only to certain mortgage transactions (1) with annual percentage rates exceeding by *more than 10 percentage points* the yield on Treasury securities with a comparable maturity (e.g., if the Treasury yield were 7 percent, the rules would apply only to mortgages with rates exceeding 17 percent); or (2) with points and fees exceeding 8 percent of the loan amount (i.e., 800 basis points).

The bill would exempt first mortgage loans from those modest rules. Yet the refinancing of first mortgage loans was a fertile source of the very abuses the rules were designed to prevent. Indeed, many of the scam artists' worst abuses involved precisely such first mortgage refinancings, which are not generally subject to usury laws.

Truth in Savings

The bill eliminates periodic disclosures under the Truth in Savings Act, but continues to require initial disclosures as well as disclosures when account terms change. Moreover, it eliminates the requirement that institutions disclose the annual percentage yield. We see value in promoting clear and accurate disclosure of annual percentage yields as well as account terms and applicable fees and penalties. We note that the costs of complying with the Act have, to a significant degree, *already* been expended. If disclosure rules remain stable, consumers can enjoy the benefits of disclosure at only modest future costs to depository institutions.

Truth in Lending

We believe that the Federal Reserve should have some authority to exempt transactions from the Truth in Lending Act requirements. But we oppose mandating the agency to do so in every case unless it can quantify or measure the benefit to the consumer. Many consumers benefits are simply not quantifiable, yet provide important protection for the public. Requiring the Federal Reserve to exempt provisions that provide benefits that are not quantifiable would undermine a major purpose of the Act. And requiring the Federal Reserve to engage in speculative research that attempts to measure such benefits cannot be justified.

Hold-in-Custody Repurchase Transactions

During the 1980s, fraud-related failures of several government securities dealers caused their customers large losses. Treasury regulations adopted in response to those scandals require financial institutions to give their customers daily written confirmations for transactions under overnight hold-in-custody sweep repurchase agreements. Confirmations help customers verify that their transactions are properly secured. Moreover, under the laws of most states, customers need daily confirmations to perfect their security interest in the collateral. The bill would permit bank customers, including some local governments that lack expertise in these matters, to waive their right to receive confirmations. We are concerned that such waivers would become standard, non-negotiable contract terms, leaving most customers (including those who most need these protections) with no effective alternative. The Treasury does plan to reexamine its regulations as more states move to let customers perfect security interests without daily confirmations.

Environmental Liability

Lenders

We support clarifying the liability of lenders under federal environmental laws. We would prefer legislation simply authorizing the Environmental Protection Agency to issue regulations clarifying the liability of lenders. We nevertheless support the sense-of-the-Congress provisions that are consistent with the EPA lender liability rule that was invalidated for lack of statutory authority, and that clarify that a lender does not incur environmental liability in connection with its lending activities unless it participates in the management of its borrower.

Banking and lending agencies

We are seriously concerned that the bill does not seek to clarify the liability of federal banking and lending agencies or to facilitate the sale of contaminated property those agencies involuntarily acquire. We believe the legislation should address these issues.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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REMARKS OF THE HON. LESLIE B. SAMUELS ASSISTANT SECRETARY (TAX POLICY) U.S. DEPARTMENT OF THE TREASURY

ABA TAX SECTION'S MAY MEETING MAY 11, 1996

INTRODUCTION

Thank you, Jerry, for the kind introduction. I am delighted to be here. And I am honored to be on a program with Randolph Thrower. As many of you know, I will be leaving the Government in June. So I would like to talk about a few issues on which we have been working as well as issues that will be debated in the coming months and years.

But first let me say how pleased I am to report that, to the Nation's great fortune, Don Lubick will be returning to Treasury to take my place. Also, we are very lucky to have Glen Kohl as Deputy Assistant Secretary (Tax Policy) who will replace Cynthia Beerbower. And Mike Thomson will be TLC. And with Joe Guttentag and Mark Iwry at Treasury and Peggy Richardson and Stu Brown at the IRS and Loretta Argrett at Justice, we have an outstanding team. I am sure that they will continue our policies under Secretary Rubin's direction. And I hope that you will give all of them your support and help.

I came to Washington about 3½ years ago, after 25 years in private practice. At the time, we had a new President and Democrats held the majority in Congress. Since then, the leadership of both chambers of Congress changed. As a result, differences in priorities became more difficult to resolve. Consequently, the last 3 years have been a challenging and very interesting period for tax policy and the tax system.

Some of the debate is healthy. For example, discussions over the type of tax system that is best for the country is useful and important. And, of course, the argument over the appropriate role of government is at the core of our political discussions. It has been since the beginning of the Republic and will certainly continue.

But today something different has happened. As Secretary Rubin pointed out earlier this week, the national debate over the role and scope of government has been dominated by derogation of government and of public service. This negativism about government -- this lack of balance -- makes it difficult to get public and Congressional support for the functions of government, whatever the broader political judgment as to the appropriate scope of government at any given time.

In the context of the tax world, what does this mean? It means that we should have a debate about our tax system, including how the system interacts with the taxpayer. But we can all agree that whatever the nature of our tax system and the size of government, there will be a tax agency. And we can debate how the IRS should be both efficient and responsive to taxpayers. Improvements can be made to improve taxpayer service. The IRS isn't perfect and it is committed to doing better.

What we don't need is derogation of government. Today what is destructive is those voices that disparage the IRS and those who serve it. And, there are voices of violence. Those are the voices of some in the militias and elsewhere who are actually threatening Federal employees way beyond what the public sees.

What is needed now is balance. It is imperative that respect for government and public service be re-established, whatever the judgment as to the appropriate scope of government.

In my public service in the last 3½ years, I have had the great privilege of dealing with a large number of talented and dedicated people committed to government service. In many cases, they work under difficult circumstances. They struggle with a tax Code that they are given by Congress. They deserve our respect and support.

It is counterproductive and harmful, to bash the IRS and its employees'. Destructive rhetoric is just plain wrong. It hurts the tax system and society. It should stop. And it should stop now.

I understand that the Tax Section is considering a public education effort to explain better the operation of the tax system. At this point in time, this could be your most important effort and I encourage you to put your many resources into raising the level of public dialog.

Now, I would like to turn to a few substantive issues that I think are important to our tax system.

SIMPLIFICATION

In thinking about fundamental tax reform as well as more immediate tax policy issues, simplification is always on our mind. Complexity, real and perceived, in our system is a problem for taxpayers, their advisers and the government. It is a issue that must be evaluated in every proposal.

But simplification does not normally receive the weight it deserves, since other criteria such as fairness, targeting and revenue considerations seem to crowd it out. And I would observe that among sophisticated taxpayers, the cost of complexity is balanced against tax savings. I have yet to see these taxpayers accept a simple approach if it means a higher tax bill. So the forces for simplification need substantial reinforcement. This is a point which has broad support. But it is difficult to translate that support into results. So we must all be pushing this issue.

The Administration has proposed a pension simplification bill. This is an important initiative and we hope that it will proceed on a bi-partisan basis.

Pension reform

The President's package is designed to increase retirement savings and security, and promote portability. A key component is a proposal to establish a new simplified plan called the NEST, a 401(k)-type plan. The lack of a simple pension plan for small businesses has led to a disturbing situation: while 76% of workers in large businesses have employer-provided pensions, only 24% of workers in small businesses do. The NEST could expand pension coverage to as many as 10 million workers.

It was also recognized that in this increasingly mobile society, more workers change jobs. Under the current rules, they face an obstacle course if they want to take their retirement savings with them. The President's proposal will remove many of these obstacles to retirement benefits portability. In addition, the proposed reforms would help workers save from the first day on the job by encouraging employers to eliminate participation waiting periods.

Protection of pension benefits has also been as important an issue for us. For example, an Administration proposal was passed by Congress in 1994 which protects the benefits of more than 40 million American workers and retirees in traditional pension plans by increasing funding of underfunded pension plans and by enhancing the PBGC's early warning and enforcement powers.

Pension regulations and other administrative guidance

In the past year, we also published a series of administrative guidance that take significant steps in the direction of making pension rules simpler and more workable. For examples, we issued a revenue ruling resolving the decade-and-a-half conflict between the Labor Department and IRS positions on the voting of uninstructed ESOP stock. And we issued final regulations providing relief from the requirement that employers withhold as a condition of taking deductions for section 83 stock transferred to employees.

Now unlike legislation, we have, as our efforts in the benefits area illustrate, somewhat more control on the issue of simplification in the guidance process. Treasury and the IRS have made a determined effort to provide guidance through clear and relatively simple rules, subject of course to the statutory framework with which we must work.

Entity classification

A good example of our simplification efforts is the proposed "check-the-box" regulations in the area of classification of business organizations. We recognized that it has often been difficult and cumbersome to apply the existing regulations and rulings in determining whether an unincorporated entity is taxable as a partnership or corporation. In addition, many states revised their statutes to allow partnerships to possess characteristics traditionally associated with corporations. Consequently, we just issued proposed regulations that will replace the long-standing, fact-intensive classification regulations with a simple system that benefits both taxpayers and the IRS.

Instead of devoting considerable resources to complex classification issues, such as centralized management and free transferability, taxpayers will now be able to achieve certainty in classification by doing no more than filing a simple election. This simplification stands as an example of the great strides that can be made in this area and should serve as a model for future reform.

Subchapter K simplification measures

While we are on the subject of partnerships, I want to highlight a few other ways in which we have dealt with partnership taxation in the past few years. This has been an area generally known for its complex and difficult provisions. There have been two underlying themes in our approach: simplification; and consistency with statutory purpose.

Besides the "check-the-box" project, we have extended our goal of simplification to other partnership concerns, such as the recently-issued proposed regulations under section 708(b)(1)(B). As you know, this section provides that a partnership is terminated for tax purposes if 50 percent or more of the interests are sold within a 12-month period. The existing regulations dating back to the 1950s employed a fiction that resulted in untold complexity for taxpayers. The new proposed regulation simplifies this area and resolves many outstanding issues.

Treasury and the IRS have also taken several important steps to preserve the integrity of Subchapter K. The provisions of Subchapter K provide taxpayers with substantial flexibility. This flexibility is important and beneficial in structuring business arrangements, but it was also used to achieve unintended tax manipulation. In response to attempts to extend Subchapter K beyond its intended boundaries, we issued the section 701 partnership anti-abuse regulation. This regulation provides taxpayers with needed flexibility to structure their arrangements, while preventing Subchapter K from becoming a source of unlimited tax manipulation.

This regulation generated an intense debate. One interesting part of the debate was whether in fact any abuses needed to be curbed. Some suggested that the world was virus free, or at least no vaccination was needed. Others thanked us for the regulation. Recently a resourceful reporter gave the public a glimpse of the corporate tax shelter world. In response to the public's concern about the fairness of the tax system and to protect the corporate tax base, this will continue to be a very important issue.

Treasury and the IRS have also taken steps necessary to update the partnership area to reflect changing conditions. We have issued final regulations under section 7704, the section that treats most publicly traded partnerships as corporations for tax purposes. We believe that the final regulations more accurately reflect the purpose and intent of section 7704.

While we have devoted considerable time and attention to the partnership area, much remains to be done. Our next goal is to address the technical complexity of the section 704(b) regulations.

These partnership projects have required great effort by many at the Treasury and IRS. And I want to express my appreciation to Paul Kugler for his important leadership role, without which this work would not have been completed. Thank you, Paul.

Research and experimentation expenses and technology

We have relied on the regulatory process to promote the Administration's policy of encouraging research. In December last year, the Treasury issued final regulations on the allocation of expenses for R&D conducted in the United States to income earned abroad. The new regulations, which responded to a debate of almost 20 years, generally reduced the allocation of domestic research expenses to foreign income by 25 percent compared to the prior regulations issued in 1977.

In addition, in 1994, we amended the regulations under section 174 to liberalize the definition of what constitutes R&E for purposes of section 174. This should reduce disputes as well as encourage research.

Today's rapid change in technology is putting pressure on the tax system. Our tax rules just have not kept pace with technology. We are in the process of preparing a paper that will request comments in the area. We look forward to the Tax Section's participation in this process.

Corporate matters

In the corporate area, Treasury and the IRS made a major commitment to revising the consolidated return regulations. I had a strong interest in the area dating back to 1965 when I worked on a law review note on the then regs. We both proposed and finalized the deferred intercompany transaction rules. And I would like to note that one of our important objectives has been to propose and then finalize regs as quickly as we can. This facilitates closure on difficult issues. In the case of the consolidated return regulations, this required enormous effort from the IRS and Treasury. I am indebted to those who gave up evening after evening and weekend after weekend to finish this project.

Treasury has also tried to close the book on some long outstanding projects. We took on and completed the triangular basis regulations. I believe this project started when Jerry Cohen was Chief Counsel.

And in the exempt organization area, taxpayers have requested more published guidance. In response, we have made an important commitment to publishing needed regs and rulings. We plan to keep this goal on track.

In the international arena, we have had a very productive period. The transfer pricing and penalty regulations were completed. And we reached a consensus on transfer pricing at the OECD. We also recently proposed Section 1441 regulations that are intended to simplify the rules and improve compliance.

Tax treaty activity

Finally, a few words about our tax treaty policy. We are committed to expanding and updating our tax treaty network as part of our international economic policy to encourage trade and investment. To achieve this goal, this Administration has been very active in developing its U.S. bilateral tax treaty network. We have pursued treaty negotiations or discussions with dozens of countries, and the Senate approved 13 separate tax treaties and protocols in the last 3 years. We have continued in this effort and hope to have a new group of about 5 treaties to present to the Senate this summer.

We recently signed a new tax treaty with Luxembourg as well as a treaty with Turkey. We expect shortly to sign a new treaty with Austria.

Our 15 plus year effort to negotiate a new treaty with Switzerland has culminated in an initialed draft of a new treaty this year. We expect to sign the treaty soon. Also we are in the final stages of negotiating a new tax treaty with Ireland.

We are also actively engaged in tax treaty discussions or negotiations with several other countries, especially in Southeast Asia and Latin America. While we face significant obstacles in these regions, we plan to continue our active tax treaty program in the coming years. And we appreciate your ideas and support in accomplishing this goal.

CONCLUSION

I feel truly honored to have served two outstanding Treasury Secretaries, Lloyd Bentsen and Bob Rubin. When I discussed the Assistant Secretary job with Lloyd Bentsen, he told me how meaningful it was for an individual to try to make a difference for Americans byway of public service. And watching him and Bob Rubin at work proved the point. They have both made enormous contributions and I feel lucky to have been on their teams.

The last 3 years have been an extraordinary professional and personal experience. I am very grateful for the opportunity to serve the public. It has been a challenging and rewarding time. We have tried to make a positive contribution. And as a bonus, it has been much more interesting than I had anticipated at the beginning. Treasury and IRS are unique places, filled with great people. The projects over the last 3 years involved many, many hard working and talented individuals, some of whom I never met. They honor the idea of public service. I am sure that they will give Don the same support and help that I have received.

Thank you.

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ADV 11 A.M. EST
Remarks as prepared for delivery
May 14, 1996

REMARKS OF TREASURY SECRETARY ROBERT E. RUBIN
COLUMBIA UNIVERSITY CLASS DAY
NEW YORK, N.Y.

Today, as the 70th Secretary of the Treasury, when I'm in my office I sit across from a large portrait of our first Secretary of the Treasury, Alexander Hamilton, a Columbia graduate and a principal author of the Federalist papers. He and the best minds of his era were intensely involved in the debate about the scope and function of the central government of our new republic. And while they often disagreed on these matters, they did not disagree in their deep respect for democracy and the public institutions which did the work of all the people.

Today, the debate of Hamilton and his peers goes on, but it is dominated by a derogation of government and public service -- the antithesis of the attitudes at the founding of our republic. That debate is changing the way the American people view their government as evidenced by poll data. Polls 25 years ago showed that 75 percent of Americans trusted the federal government. Polls today put that trust at under 25 percent. Distrust of government is well above the danger point.

Commencement speeches often deal with advice to graduates or reflections on the past and present. I would like to use my time today for a most serious purpose -- to discuss the debate about government, because I believe it is of the utmost seriousness to the world in which you will live. And I believe that in your own lives -- no matter what career you choose -- that you should get involved in re-establishing a constructive relationship between our people and our government.

I spent 26 years in investment banking. They were good years: I was captured by the issues, the challenges and the excitement, and I was fortunate financially. But throughout that period of my life, I also had an intense engagement and involvement in public life and the political process. For you, as it did for me, that engagement can contribute a greatly enriching additional dimension to your life, and contribute to your country in an area of critical importance.

(more)

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I would also urge that as you start out on your career paths, that you consider spending at least part of your career in public service. For me, Washington has provided a deeply rewarding opportunity to use the experience from the private sector to deal with the issues of the nation, and it can be for you too. Unfortunately, in the environment that exists today, appeals to public service are not often heard and often not well received. And the reason is the negative atmosphere that has been created with respect to government.

The oldest argument in the history of our republic is over the appropriate role of government, and the political parties have often traded positions in their advocacy of more versus less. But, as I said earlier, something has changed about the debate today, and it is now dominated by derogation of government and public service.

I am emphatically not saying we should not debate the role of government and how to improve government. Just as there is a wide range of views about government across the country, I'm sure that among the Columbia student body there is a full and wide range of views on these issues. These are legitimate and critical areas of debate, but today the dominant tone is hostility.

Think of the voices we hear: First, the political and intellectual voices who believe the scope of government and its role in society should be very limited; second, the popular voices on talk radio and elsewhere that disparage the government and the people who serve in Washington; and third, the voices of violence. Those are the voices of some in the militias and elsewhere who are actually threatening federal employees way beyond what the public sees.

The Oklahoma City bombing was the most vivid and violent example of domestic terrorism in our country's history, but it is part of a disturbing and growing problem. Last fall I visited Treasury's Bureau of Alcohol, Tobacco and Firearms office in St. Paul. They'd just broken up a group suspected of planning to bomb an Internal Revenue Service office. In that same area, they made arrests in a suspected plot to spread lethal toxins in the homes of judicial officers.

I was at an anti-violence event in Maryland a few months ago. A woman told me she'd worked at a school to help convince youngsters not to use guns. She said someone claiming to be from the Michigan Militia threatened her life. Park Rangers and Bureau of Land Management employees are being threatened. For those of you who use the Internet -- and I suspect that's a great many of you here today -- type the word militia under a search area and stand back, then start reading some of this material.

What's completely missing in the public discussion of government is balance, and that has serious consequences for the world you will live in.

In many ways, you are entering an era of great change -- arguably globalization and technology are the most significant economic changes since the Industrial Revolution -- and this era is filled with hope and opportunity.

But it is also an age of anxiety, and large numbers of American families are anxious about wage stagnation, economic dislocation, and social and moral issues. Too many Americans experiencing all these uncertainties also believe that the institutions of government they have historically looked to for solutions to their problems, are broken. And then, they are more likely to turn to those who offer harsher rhetoric and more extreme courses of action. All this feeds extremism in our society, the extremism we see in some of the militias and hate groups in this nation. If this continues, the idea that America is a society where a Constitution and government and people working together can produce progress for all Americans ceases to be.

I think it is imperative for the future of our country, that respect for government and public service be re-established again, whatever the judgment as to the appropriate scope. We as a nation, must begin talking about the critical role that government plays and the important things that government -- and often only government -- can do.

In that spirit, I'd like to make three points.

First, government matters. I will not discuss at length the array of government functions that can be performed in no other way and that matter greatly to Americans, but you know what they are. They begin with a strong military, an impartial system of justice, and rules and laws to protect the dignity of people, particularly the powerless, to preserve the shared environment, and to provide for public education, welfare and health.

These functions are under broad attack. It is unpopular to say, but many of them are making an enormous difference in the lives of the American people. I can tell you that in contrast to the cynics and extremists who say government does not work and doesn't make a difference, it most certainly does.

To offer an example that's just a few miles from here, the South Bronx is making enormous progress in its transformation from an urban wasteland.

Go there. You will see a vast area of attractive new and rehabilitated housing, and the beginnings of businesses returning and jobs being created.

How did it change? Business and communities came together with the help the Community Reinvestment Act, the Community Development Financial Institutions Fund, and the Low Income Housing Tax Credit. Government, with the private sector, is the catalyst in addressing what may be our most critical domestic policy issue, the problems of the inner city -- a catalytic function no other institution in our society can or will do.

To change locales, a few years ago I was flying at low altitude over an area wher I go fishing, and you could see the undermining effects of massive developmental disregard of one of the nation's most remarkable natural treasures. In the same vein, about 25 years ago, then Mayor Lindsay quipped about not being comfortable breathing air he couldn't see. Today, that national treasure is healing, and New York City's air is appropriately invisible. Government played the critical role in each case and, in the fin analysis, only through government -- directly or as a catalyst -- will the environment in which you live your lives and make your homes be adequately protected.

So government matters.

My second point is about the people in government. People ask me what I find most surprising about Washington. I invariably say one of the things that has most struck me is the commitment and quality of so many people with whom I've worked. And that includes many younger people who, like you, have the advantage of an outstanding education and then decided to spend a few years in public service.

Government takes on many of the most difficult issues in our society. The peopl who I work with have done the legal and financial work on the $20 billion loan guarantee for Mexico. They have fought extraordinarily hard and successfully to keep this country out of default, to protect the President, to help pass an assault weapons ban to investigate the Oklahoma City bombing, to develop tax and economic policy, to make it possible for millions of Americans to file their taxes by telephone, to seize tons and tons of dangerous drugs at our borders, and the myriad other things that make a difference in the lives of Americans.

These people do this extraordinary work, despite the fact they are called bureaucrats -- and worse -- by talk show hosts and irresponsible public officials, and the never receive the public support or recognition that their hard work deserves.

My third point is that the federal government -- like the business world -- is now deeply involved in improving itself to make government operate more efficiently and effectively, and to be more customer sensitive.

The federal workforce is the smallest in a generation, and as a percentage of the total work force in this nation, at its lowest level in many many decades. Moreover, government is in the process of turning from the kinds of hide-bound institutions many of us imagine to agencies bound and determined to do better jobs that give taxpayers th highest value for their dollars.

I deeply believe that the success of our country -- your country in the years and decades ahead -- requires that faith in our public institutions be restored. And that cannot happen unless there is a far broader -- and yes, far louder -- counterpoint to the voices on talk radio, to the militias, to those who reject the notion of government and the rule of law in this country.

And so, this is your challenge, not simply as Columbia graduates but as Americans coming of age at a cross-roads in our nation's proud history. You must become a part of the process of re-establishing respect for the institution of government and those who work in public service.

Being part of a rational public discourse about where this nation is headed is one of the most important things you can do. And to do that, you must reject the cynicism and derogation that argues that society is incapable of improving itself through the institution of government.

And, you must also take responsibility for making government better without putting it down. You can do this by voting, by volunteering, by supporting candidates you believe in, or by serving in government.

Throughout our history, new generations have met the challenges of the times. Today, our country needs you to meet the challenges we have just discussed. By doing so, you will honor the democratic principles on which this nation was built and take upon yourselves the same task that was performed so ably by my predecessor and your fellow alumnus, Alexander Hamilton.

Thank you and congratulations.

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EMBARGOED UNTIL 2:30 P.M.
May 14, 1996

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $27,000 million, to be issued May 23, 1996. This offering will provide about $1,025 million of new cash for the Treasury, as the maturing weekly bills are outstanding in the amount of $25,981 million.

Federal Reserve Banks hold $6,924 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $4,035 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

RR-1068

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED MAY 23, 1996

May 14, 1996

Offering Amount	$13,500 million	$13,500 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 Z7 2	912794 3P 7
Auction date	May 20, 1996	May 20, 1996
Issue date	May 23, 1996	May 23, 1996
Maturity date	August 22, 1996	November 21, 1996
Original issue date	August 24, 1995	May 23, 1996
Currently outstanding	$31,686 million	- - -
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids

Competitive bids . . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . Prior to 12:00 noon Eastern Daylight Saving time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

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Update: May 14, 1996

MEDIA ADVISORY

Meeting of Western Hemisphere Finance Ministers
Hosted by the United States of America
New Orleans
Friday, May 17, and Saturday, May 18, 1996

The following is an updated schedule and additional press information on the meeting of finance ministers from the 34 democratic countries in the Western Hemisphere that U.S. Treasury Secretary Robert Rubin will host in New Orleans on Friday, May 17, and Saturday, May 18.

This tentative press schedule and summary of press arrangements for the meeting is for planning purposes only.

Unless otherwise noted, all events are at Gallier Hall, 545 St. Charles Avenue.

Note: Signup deadline for the press boat tour of the Port of New Orleans, scheduled for 8:30 a.m., Thursday, is 5:00 p.m. Wednesday. Contact: Tom Hohan of MetroVision Economic Development Partnership (504) 527-6951.

This advisory will be updated.

Wednesday, May 8

3-4 p.m. Interactive Worldnet program on New Orleans conference with Under Secretary for International Affairs Jeffrey Shafer from Washington.

Wednesday, May 15

11 a.m. Secretary Rubin press briefing on conference.
Location: U.S. Treasury Department, Room 4121.
Worldnet will transmit taped feed of briefing internationally on Wednesday at 1-2 p.m. Contact:Worldnet Newsfile contact Norman Powell (202) 501-6266 or Elmy Martinez (202) 501-7777

Thursday, May 16

9 a.m - 6 p.m. Press credentials available for pickup at the New Orleans Marriott, 555 Canal Street.

Friday, May 17

8:30-10:30 a.m. Riverboat tour and press briefing on international trade and Port of New Orleans hosted by MetroVision Economic Development Partnership.

Note: Space is limited. A shuttle will be available for transportation from Marriott to boat tour and briefing, then from the tour to New Orleans International Airport for 11:30 a.m. arrival statement with Secretary Rubin and New Orleans Mayor Marc Morial.

Contact: Tom Hohan of MetroVision at (504) 527-6951 by 5:00 p.m., Wednesday, May 15.

9 a.m. International Press Center opens at Gallier Hall.
Press credentials available for pickup.

11:30 a.m. Arrival statement by Secretary Rubin with New Orleans Mayor Marc Morial.
Location: New Orleans International Airport, Board Room.
Contact (Airport): Patricia T. Lotz at (504) 464-3547

2:30-5:30 p.m. Inter-American Development Bank seminar on Liberalization, Development and Integration of Financial Markets in the Americas. Participants will include Treasury Secretary Robert E. Rubin, Counselor to the President, Thomas F. (Mack) McLarty, IDB President Enrique V. Eglesias, and a group of finance ministers and private sector representatives from throughout the Western Hemisphere.
Press: Open.
Location: Gallier Hall, 545 St. Charles Avenue.

6-7 p.m. Reception hosted by the City of New Orleans and Louisiana officials. This will include brief remarks by local officials and Secretary Rubin.

For planning purposes only: Arrivals scheduled to begin at 5:45 p.m. Remarks tentatively scheduled for 6:15 p.m.
Press: Credentialed press are invited to the reception; a riser area will be provided for working press.
Location: New Orleans Museum of Art, City Park, 1 Collins Diboll Circle.

Saturday, May 18

8 a.m.	Press Center opens.
8:15 a.m.	Cameras set up at Gallier Hall for arrivals.
9-9:30 a.m.	Delegation arrivals.
9:30 a.m. -12:30 p.m.	Plenary session. Press: Opening remarks only; photo op at beginning of meeting; may be pooled. Media will be escorted from/to International Press Center at 9:15 a.m.
12:40 p.m.	Group photo of finance ministers. Press: Open.
2:30-3:45 p.m.	Plenary session.
3:15 p.m.	Setup for concluding press conference
4 p.m.	Concluding press conference.
5-7 p.m.	Reception hosted by World Trade Center and other New Orleans business groups. Location: World Trade Center, 2 Canal Street. Press: Credentialed press are invited to the reception; a riser area will be provided for working press.
8 p.m.	International Press Center closes.

Credentials. Press credentials are required for all media covering the meeting. An application for press credentials is attached.

U.S. press based in the United States should apply for credentials through the Treasury Public Affairs Office. International press based in the United States should apply through the U.S. Information Agency's Foreign Press Center in Washington. Press based in countries other than the United States should apply through the USIS office in that country.

International Press Center. The International Press Center will be open from 9 a.m. Friday, May 17, until 8 p.m. Saturday, May 18, at Gallier Hall, ground floor. The press center, open to credentialed reporters, will make available official schedules, press releases, information on events open to press coverage, transcripts and background information.

The press center will have a limited number of international credit and calling card telephone lines. Reporters wishing to reserve a dedicated telephone line in the press center should call

Naomi Thomas of Bell South at (504) 528-7508 or (504) 592-1317.

Shuttle buses. Shuttle buses will provide transportation between conference locations for credentialed delegates, staff and press.

Accommodations. The New Orleans Marriott Hotel, the conference headquarters, is booked. Press wishing to be placed on a waiting list for rooms at the Marriott should return the attached form but should make alternate arrangements. New Orleans has many hotels in all price ranges, although May is a popular time for the city and available rooms are limited. The New Orleans Metropolitan Convention and Visitors Bureau at (504) 566-5005 can help secure rooms.

Conference Internet site: www.gnofn.org/mwhfm

Contacts.
U.S. Treasury/Washington
Chris Peacock, Michelle Smith or Phyllis Kayson at (202) 622-2960, fax: (202) 622-1999

U.S. Information Agency/Foreign Press Center
Jonathan Baker at (202) 724-0040, fax: (202) 724-0007
Peter Brennan at (202) 622-2854, fax (202) 622-2854, e-mail pbrennan@usia.gov

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5/14

WESTERN HEMISPHERIC FINANCE MINISTERS MEETING

New Orleans, Louisiana
May 17-18, 1996

Application for press credentials

(Please print or type)

All members of the press wishing to cover the Western Hemispheric Finance Ministers meeting must submit a completed credential application form by Wednesday, May 1, 1996.

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Press organization/affiliation title

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Office phone number FAX number E-Mail

Date of birth place of birth

Social Security number passport number nationality

U.S. news organizations in the U.S. should apply for credentials through:

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U.S Department of the Treasury
Office of Public Affairs, Room 2315 MT
1500 Pennsylvania Ave., N.W.
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All overseas press, whether affiliated with a U S or foreign news organization, should apply for credentials through the U.S. Information Service in that country.

Credential pickup will be in New Orleans. Date and location to be announced.

Please FAX to: Phyllis Kayson
Department of the Treasury
202/622-1999

MARRIOTT HOTEL REGISTRATION FORM
FOR WESTERN HEMISPHERIC FINANCE MINISTERS MEETING

Reservations must be made ASAP
Cancellations made no later than May 13 will incur no costs

NAME	COMPANY	ADDRESS	TYPE OF ROOM*	FORM OF PAYMENT **	CHECK-IN DATE (approx. time)	CHECK-OUT DATE (must be out by noon)

* Hotel accommodations and prices (do not include 11% tax nor $3.00 per night city tax) are the following:
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TREASURY NEWS

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EMBARGO TO BE SET AT BRIEFING
Remarks as prepared for delivery
May 15, 1996

REMARKS OF TREASURY SECRETARY ROBERT E. RUBIN
PRE-NEW ORLEANS MINISTERIAL PRESS CONFERENCE

This weekend in New Orleans finance ministers from the democracies in the Western Hemisphere will meet to continue the Summit of the Americas process.

It is our first meeting since the Miami summit in December of 1994 -- other than the special purpose meeting on money laundering in Buenos Aires -- and with the problems that Mexico experienced receding, it is time to examine how we can sustain and broaden the benefits of growth in our region.

The Latin American region has undergone a remarkable turnaround from the 1980s as the result of an initial round of reform. But there continues to be an important need to raise and sustain growth rates, and a critical need to address the problems of poverty. If the growth rate were to increase to say 5 or 6 percent a year, it will be a major move toward addressing a second tier of problems -- poverty and a serious inequity in income distribution.

There must be a continuation of economic reform in our region.

Therefore, our discussions will focus on three things: first, reinforcing commitments to sound economic policies, including ones oriented toward the private sector and which increase national savings; second, seeking agreement on a program for developing, liberalizing and integrating financial markets, and institutionalizing the consultative process in the Hemisphere; and third, strengthening efforts to combat financial crime.

There are nearly three-quarters of a billion people in the Western Hemisphere, many in well-developed areas. But there are places where there is no access to clean water. There are places with insufficient infrastructure -- roads, power plants, telephone systems. There are deeply serious poverty problems. There are countries paying dearly now for lax financial supervisory and regulatory regimes, and a lack of transparency. Both equity and debt markets are underdeveloped in much of the Hemisphere.

The prosperity Latin American can achieve through the initiatives we'll discuss in New Orleans holds enormous promise for economic growth, jobs and higher wages for Americans here at home, and will contribute to our national security.

The New Orleans ministerial will, I believe enable the economies in our region to continue on the path of reform.

Thank you.

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GROUP OF TEN

THE RESOLUTION OF SOVEREIGN LIQUIDITY CRISES

A report to the Ministers and Governors
prepared under the auspices of the Deputies

Pre-publication version

May 1996

Copies of this publication can be obtained from the central banks and finance ministries of the Group of Ten countries and from:

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USA

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GROUP OF TEN

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A report to the Ministers and Governors
prepared under the auspices of the Deputies

May 1996

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EXECUTIVE SUMMARY

1. Following an invitation to the Ministers and Governors of the Group of Ten by the Heads of State and Government of the Group of Seven in Halifax in June 1995, the Deputies of the Group of Ten established a working party to consider the complex set of issues arising with respect to the orderly resolution of sovereign liquidity crises. While taking a comprehensive view of the problem, the Working Party focused its attention on those forms of debt to private creditors, such as internationally traded securities, that have increased in importance in the new financial environment but that in the past have usually been shielded from payments suspensions or restructurings. In carrying out its work, the Working Party recognised that the highest priority needs to be given to measures that will help prevent crises from occurring and endorsed efforts underway in other forums to improve market discipline and strengthen the surveillance of sovereign borrowers' economic performance. It attached particular importance to the need for sovereign borrowers to make timely changes in their economic policies if conditions change in ways that may lead to reductions in capital inflows.

2. After careful review of analyses of the full range of questions involved, and taking into consideration surveys of the views of market participants and of legal practices relating to collective representation of debt holders that were conducted by its members for this purpose, the Working Party reached the following broad conclusions.

- First, it is essential to maintain the basic principles that the terms and conditions of all debt contracts are to be met in full and that market discipline must be preserved. However, in exceptional cases, a temporary suspension of debt payments by the debtor may be unavoidable as part of the process of crisis resolution and as a way of gaining time to put in place a credible adjustment programme.
- Second, neither debtor countries nor their creditors should expect to be insulated from adverse financial consequences by the provision of large-scale official financing in the event of a crisis. Markets are equipped, or should be equipped, to assess the risks involved in lending to sovereign borrowers and to set the prices and other terms of the instruments accordingly. There should be no presumption that any type of debt will be exempt from payments suspensions or restructurings in the event of a future sovereign liquidity crisis.
- Third, current flexible, case-by-case practices and procedures, as they have evolved over the years, are an appropriate starting point for approaches to sovereign liquidity crises. They emphasise the importance of adjustment efforts of the debtor country and place principal responsibility for workouts on the debtors and creditors, with the debtor country having

primary responsibility for setting the process on a co-operative footing. Improvements in practices and procedures should continue to be evolutionary.

- Fourth, international bankruptcy procedures and other formal arrangements do not appear to provide, in current circumstances or in the foreseeable future, a feasible or appropriate way of dealing with sovereign liquidity crises. However, further study by private sector entities may be warranted.
- Fifth, further consideration should be given in appropriate forums to ways in which financial systems in emerging market economies could be strengthened in order to reduce the risks they might pose in the event of a sovereign liquidity crisis.
- Sixth, a market-led process to develop for inclusion in sovereign debt instruments contractual provisions that facilitate consultation and cooperation between debtors and their private creditors, as well as within the creditor community, in the event of crisis would be desirable. Market initiatives would deserve official support as appropriate.
- And seventh, note was taken of current policies of the IMF that provide, under exceptional circumstances, for lending in support of effective adjustment programmes prior to full and final resolution of a sovereign borrower's arrears to private creditors. It would be advisable for the IMF Executive Board to review existing policy in this area and to consider whether the scope of its application should be extended to other forms of debt not now covered, while remaining mindful of the need for prudence and the maintenance of strict conditionality.

3. The thinking of the Working Party was influenced by three basic changes in the financial environment bearing on the character of potential future sovereign liquidity crises. First, the broader and stronger linkages among domestic and international financial markets mean that crises can erupt much more quickly in today's markets and can be far larger in scope than in the past. Second, flows of capital to emerging market economies in the form of purchases of securities have increased greatly in size over the years and have substituted for other types of private capital. Third, when a crisis occurs new finance is unlikely to be forthcoming from those who undertook the original lending. These changes mean that financing available from official sources is less likely to be sufficient to enable a sovereign debtor experiencing a crisis to meet fully its external financing obligations. In any event, the Working Party stressed that provision of official funds to limit private losses raises serious moral hazard risks and could interfere with market discipline.

4. In considering means to deal with future sovereign liquidity crises, the Working Party was of the view that no single pre-set procedure can be suitable in all cases. However, it identified a broad set of desirable principles and features that provide a framework for the development of procedures for handling sovereign liquidity crises in a flexible, case-by-case approach in light of the conditions prevailing at the time, the nature and the intensity of the crises, and the circumstances of the debtor. Any such procedure should have the following features.

- It should foster sound economic policies by all debtors.

- It should minimise moral hazard for both creditors and debtors.
- It should rely on market forces and not interfere with the efficient operation of secondary markets in relevant debt instruments.
- It should limit contagion from one debtor's problems to other countries.
- It should support credible and sustainable actions and, to this end, not impose excessive social, political, or economic costs on the debtor.
- It should seek to ensure that burdens associated with the provision of exceptional financing are allocated fairly within and across different classes of creditors.
- It should strengthen the ability of governments to resist pressures to assume_responsibility for the external liabilities of their private sectors.
- It should be suitable for quick and flexible use in a variety of different cases.
- It should be cooperative and non-confrontational, and promote the adoption by debtors and creditors of arrangements to facilitate resolution of liquidity crises should they occur.
- It should build on existing contractual or other arrangements that facilitate the resolution of crises.
- It should make use of existing practices and institutions.

5. The Working Party concluded that the establishment of a formal international bankruptcy procedure would not be feasible or appropriate under present circumstances or in the foreseeable future. Sovereign debtors have not in the past had a strong need for legal protection against their creditors, nor could they be obligated to submit to the jurisdiction of a bankruptcy forum. However, the Working Party noted that interested private parties might wish to continue to study the merits of bankruptcy or other formal procedures. At the same time, the Working Party concluded that it is not possible or desirable to preclude official involvement altogether in the event of a serious crisis. The official community's interest in containing systemic risk and its role as a lender to sovereign borrowers mean that it is has a stake, and therefore a role to play, in fostering cooperative efforts by debtors and creditors to contend with unexpected payments problems.

6. In considering specific ways to facilitate resolution of sovereign liquidity crises, the Working Party took the view that current practices are an appropriate starting point. Current practices were developed over the course of the past few decades to contend with real world problems in a pragmatic and flexible manner. They are voluntary and make use of market information and market forces. The practices recognise the distinct perspectives of the three main actors involved in a crisis - the official community, private creditors, and the sovereign debtor - as well as their common interest in the orderly resolution of the crisis. They involve national authorities and multilateral institutions but place principal responsibility on the individual debtor and its creditors. The practices are based on the implementation of an IMF-supported sustainable adjustment programme as a major precondition for the cooperative resolution of a crisis.

7. The Working Party recognised that structural weaknesses in the banking systems of debtor countries could seriously aggravate liquidity crises and might pose difficulties for financial systems in lender countries. The Working Party concluded that further work should be undertaken in appropriate international forums to promote the strengthening of financial systems in emerging market economies and thus help to reduce such risks.

8. The Working Party took the view that certain contractual or statutory provisions governing debt contracts can facilitate the resolution of a crisis by fostering dialogue and consultation between the sovereign debtor and its creditors and among creditors, and by reducing the incentive for, or ability of, a small number of dissident creditors to disrupt, delay or prevent arrangements to support a credible adjustment programme that is acceptable to the vast majority of concerned parties. Among such provisions are those that (a) provide for the collective representation of debt holders in the event of crisis, (b) allow for qualified majority voting to alter the terms and conditions of debt contracts, and (c) require the sharing among creditors of assets received from the debtor. Such clauses have been employed in a limited set of debt contracts. The Working Party emphasised that evolution of contractual arrangements between sovereign borrowers and their creditors needs to be a market-led process if it is to be successful. Such efforts should receive official support as appropriate.

9. The Working Party strongly endorsed the fundamental principle that the terms and conditions of all debt contracts are to be met in full and on time. At the same time, it recognised that in certain exceptional cases the suspension of debt payments may be a necessary part of the crisis resolution process. Such payment suspensions should be non-confrontational and implemented in a way that does not hamper the operation of secondary markets. The Working Party did not consider that it would be feasible to operate any formal mechanism for signalling the official community's approval of a suspension of payments by the debtor. Although the Working Party rejected any formal international approval of a suspension of debt payments, it concluded that it would be advisable for the IMF Executive Board to consider extending the scope of its current policy of lending, in exceptional circumstances, to a country that faces the prospect of continuing to accumulate arrears on some of its contractual debt-service obligations to private sector creditors, in cases where the country is undertaking a strong adjustment programme and making reasonable efforts to negotiate with its creditors. Such lending can both signal confidence in the debtor country's policies and longer-term prospects and indicate to unpaid creditors that their interests would best be served by quickly reaching an agreement with the debtor.

10. The Working Party reached the overall conclusion that there is no need to change current procedures for official bilateral credits and long-term bank claims. However, there is a need for the principles and procedures for handling sovereign liquidity crises to take into account the new

importance of debt in the form of securities and the growing likelihood that some such debt may have to be subject to renegotiation in the future. While the official community may be able to facilitate dialogue and assist in data collection, market participants should make the decisions regarding any innovations in contractual provisions. The official community's primary role in the resolution of sovereign liquidity crises should remain centred on the promotion of strong and effective adjustment by debtor countries in the context of IMF-supported programmes, which would need to take into account any recourse to temporary suspensions of payments.

INTRODUCTION

1. At their meeting in Halifax on 15th-17th June 1995 the Heads of State and Government of the Group of Seven countries, "... recognising the complex legal and other issues posed in debt crisis situations by the wide variety of sources of international finance involved . . . encourage[d] further review by G-10 Ministers and Governors of other procedures that might also usefully be considered for their orderly resolution". Following this invitation, the Deputies of the Group of Ten established a working party consisting of representatives of the ministries of finance and central banks of the G-10 countries, with the participation of experts from key international organisations, to examine the complex range of issues arising in this area. In October 1995 the Deputies were asked by Ministers and Governors to continue this work and to report to them in April 1996.

2. This undertaking is complementary to other work under way to improve the ability of the official community to deal with threats to the stability of the international financial system. In response to a separate but related Halifax initiative, the Group of Ten has been exploring whether its members and other countries with the capacity to support the system would be prepared to double the resources currently available under the General Arrangements to Borrow (GAB) for responding to financial emergencies. In addition, at its meeting in autumn 1995 the Interim Committee endorsed the establishment of a new standing "Emergency Financing Mechanism" which on the basis of strong conditionality would, when warranted, provide borrowers with faster access to IMF arrangements and larger up-front disbursements.

3. The rapid changes observed in the financial system and the increasing size and diversity of financial flows to emerging market economies have given rise to questions whether existing procedures for resolving sovereign liquidity crises would be adequate for dealing with future crises, should preventive measures fail. As noted in the Halifax Communiqué and discussed later in this report, the Mexican crisis provided the backdrop against which consideration of these issues occurred. However, the Working Party did not focus on that particular case and took a broader view of its mandate.

4. The Working Party considered alternative approaches for dealing with sovereign liquidity crises. While not wishing to discourage further exploration of other specific alternatives by interested parties, the Working Party concluded that it should focus its attention on those approaches that build on existing practices and institutions (e.g. those of the Paris and London Clubs) and are designed to work to the greatest possible extent with the grain of the market.

5. In most cases, three classes of actors are involved when a sovereign liquidity crisis erupts: the government of the debtor country, its private creditors and the official community (comprising

multilateral institutions and national authorities, both of which may be involved also in their capacity as creditors). The balance of actions undertaken, and the burdens assumed, by each class of actors in this trilateral process are of the utmost significance for containing moral hazard. Moral hazard in this context refers to distorted incentive structures that induce borrowers and/or lenders to engage in risky financial behaviour, or inadequately monitor the risks they assume, in the expectation that they will be insulated from the adverse consequences of their activities by the public authorities. The official community has several objectives in this respect, including: (i) promoting adjustment by the debtor country, generally in the context of an IMF-supported adjustment programme, (ii) minimising collective action problems, that is, problems which arise when individual agents do not have sufficient incentive to cooperate but instead pursue their own narrow objectives to the detriment of the common good, (iii) catalysing finance in support of adjustment efforts, when the latter are credible, and (iv) discouraging expectations that large-scale official financing packages will be available to meet debt service obligations to the private sector. The Working Party has kept in mind the need to balance these considerations.

6. The Working Party is of the view that no single preset procedure can be suitable for dealing with every sovereign liquidity crisis. The appropriate course of action will depend on the nature and intensity of the crisis, the circumstances of the debtor and the type of creditor. Therefore, procedures should allow for flexible, case-by-case treatment. Nevertheless, arrangements for handling sovereign liquidity crises should have a number of desirable features. After delineating a broad set of such features, the report seeks to set out and widen the range of approaches available to the three classes of actors.

7. With the benefit of work done in the first half of 1995 by representatives of G-10 central banks under the auspices of the BIS, the Working Party set out to collect from national authorities and international organisations a range of factual and analytical material relevant to the issues at hand. It also carried out a survey of the views of market participants on many of these issues and compiled information on legal practices relating to the collective representation of debt holders. Summaries of these surveys are annexed to the report. The Working Party used the information gathered to consider whether changes in current practices and procedures might be warranted and to what extent they might be feasible.

8. The Working Party's findings are presented below. The first section sets out the basic framework for the analysis. The second considers various approaches for handling a crisis. The third section discusses how the economic, legal and institutional environment for dealing with crises can be improved. The fourth examines the management of a crisis.

I. FRAMEWORK

9. This section outlines the basic framework for the report. It begins by describing the substantial changes in the international economic environment which have taken place over the past decade under the impact of financial and technological innovation and the liberalisation of

cross-border capital flows and then assesses the implications of these changes for the nature and severity of future sovereign liquidity crises and for the manner in which they could be handled. It then goes on to list a few features that workout procedures should ideally possess if they are to facilitate the orderly resolution of liquidity crises. It concludes with a discussion of the types of crisis and types of debt that might have to be covered.

A. The changing environment

10. The considerable changes that have occurred in the international financial environment in the past decade will have a major bearing on the speed, intensity and nature of any international liquidity crisis that might occur in the future. Liberalisation of capital markets and financial and technological innovation have greatly increased the size and volatility of cross-border positions. They have been associated with a corresponding expansion of capital flows and massive growth in the volume of transactions, reflecting in part greater market breadth and depth.

11. While foreign direct investment flows to developing countries have surged over the past decade, the most dramatic development has been the growing importance of bonds and other securities, especially in the financing of emerging market economies. Net portfolio investment flows to all developing countries increased from an average of US$ 6.5 billion per year in 1983-89 to over US$ 43 billion in 1990-94 (Table 1). The increase in net flows of portfolio investment to the emerging economies of Asia and the western hemisphere has been even more pronounced, as both governments and private entities in these economies have made heavy use of securities to raise funds in the international capital market.

Table 1. Capital flows to developing countries

Annual averages, in billions of US dollars

	1977-82	1983-89	1990-94
Total net capital inflows	30.5	8.8	104.9
Net foreign direct investment	11.2	13.3	39.1
Net portfolio investment	-10.5	6.5	43.6
Other	29.8	-11.0	22.2

Source: IMF World Economic Outlook database.

12. The changes in the nature and size of capital flows to developing countries have been accompanied by significant changes in the composition of the investor community. Institutional investors, including so-called emerging markets mutual funds, have become a notable source of funds for borrowers in emerging market economies though their claims on these countries still account for only a small proportion of their total assets. By contrast, commercial bank loans to developing countries and emerging market economies, which were a main source of finance in the 1970s, have increased only slowly during the early 1990s. Relative to their capital, commercial banks' exposure to these countries is considerably lower than in the 1980s. This reduces the

likelihood that the type of approach to debt problems that was followed in the 1980s could be adopted again in the event of financial distress in an emerging market country.

13. The Mexican crisis of 1994/95 illustrated the potential size, speed and severity of sovereign liquidity crises in these new circumstances. The Mexican Government had a large stock of short-term liabilities in the form of securities indexed to the US dollar (tesobonos), and Mexican banks had extensive foreign-currency denominated international interbank lines as well as large comparable liabilities to foreign non-banks. Rolling these liabilities over or refinancing them in the market was very problematic.

14. The increase in the importance of debt in the form of securities raises the question of whether the liquidity problems of a troubled debtor can be resolved without including such liabilities in workout procedures providing temporary relief for the debtor in support of its adjustment efforts. It is worth noting that the risk premium on some emerging market debt suggests that market participants realise that there is a non-negligible probability of debt service payments being interrupted in some cases.

15. On balance, the change in the environment has had several significant consequences. The shift of sovereign borrowers away from commercial bank loans and towards increased reliance on bond financing means that holdings are more dispersed and that a liquidity crisis is less likely to threaten the international financial system. At the same time, however, it means that new finance is unlikely to be forthcoming from those who undertook the original lending. Bondholders are in general probably less likely than commercial banks to see any advantage in forming a long-term relationship with the countries to which they lend, and many are likely to sell their holdings in reaction to perceived payments difficulties. Securities can be traded more easily than bank loans. The increasing integration of capital markets also means that crises may erupt quickly and can be far larger in scope than they were in the past. In addition, they can be transmitted from the original problem debtor to countries with stronger underlying economic fundamentals.

16. In light of these developments the Working Party drew two main policy conclusions. Firstly, approaches which stress prevention and enhance market discipline should be given the greatest priority. Secondly, given the limitations on the availability of official finance, the need to contain moral hazard and the desirability of equitable burden sharing, there can be no presumption that any form of debt will be excluded from workout arrangements in the future. While the provision of some official funds may be warranted in the case of a pure liquidity crisis, repeated reliance on emergency finance would encourage imprudent behaviour by debtors and creditors alike.

B. Objectives and desirable features of orderly workout procedures

17. After considering current and past arrangements, and taking into account the underlying objectives of action to prevent, handle and resolve sovereign liquidity crises, the Working Party concluded that any crisis management procedure should have certain basic features:

(a) It should foster the pursuit of sound economic policies by all sovereign debtors. In this context appropriate conditionality is essential for promoting economic adjustment by debtors so as to enhance their capacity to repay their creditors and regain the confidence of the markets.

(b) It should minimise moral hazard for both creditors and debtors. This entails taking full account of the risk of moral hazard for debtor behaviour implicit in any official action and ensuring that creditors are not insulated from the effects of their own lending decisions. Official financial support, if necessary, should be limited in amount.

(c) It should work with the grain of the market and avoid measures that interfere with the efficient operation of secondary debt markets. The smooth functioning of these markets can foster the continued exercise of market discipline, the accurate pricing of risk and the renewed flow of finance to emerging markets.

(d) It should limit contagion effects, whereby a crisis in one country leads creditors to shift funds out of other countries perceived to be in similar circumstances.

(e) It should support credible and sustainable action, and to this end not impose excessive social, political or economic costs on the debtor. Accordingly, some amount of financing may be required for a successful economic adjustment programme.

(f) It should seek to ensure that the burdens associated with the provision of exceptional financing are shared fairly within and across different classes of creditors, with due account being taken of de minimis[1] and other considerations.

(g) It should strengthen the ability of governments to resist pressures to assume responsibility for external liabilities of their private sectors.

(h) It should be flexible enough to be applied quickly and suitable for use in a variety of different cases.

(i) It should be cooperative and non-confrontational, and promote the adoption by debtors and creditors of arrangements to facilitate the resolution of liquidity crises should they occur.

(j) It should build upon contractual or other arrangements that facilitate the resolution of international liquidity crises should they occur.

(k) It should make use of existing practices and institutions, modified, if necessary, to make them effective and quick to respond in new circumstances.

C. Coverage

18. One reason for seeking to develop procedures for handling sovereign liquidity crises is to contend with threats to the international financial system. However, a range of views exists on precisely what constitutes a systemic crisis, and it may often be difficult to tell early in the course of a major crisis whether the crisis will remain contained or grow through contagion and other effects. Moreover, there is good reason to reduce the cost of crises even when they do not have systemic implications. Just as existing procedures provide for action in a variety of cases, so

[1] The de minimis criterion provides for the exclusion of certain creditors on the grounds that their claims are so small as not to be of material concern for either the debtor or other creditors.

should new procedures. Accordingly, the report considers procedures which could be used to contend with sovereign liquidity crises irrespective of whether they are systemic.

19. Multilateral institutions enjoy effective preferred status because of the seniority of their claims. The Paris Club procedures for the resolution of sovereign debt problems cover bilateral claims of the official sector. The more diffuse London Club process has been applied primarily to long-term claims of the commercial banks. For a large and increasing class of debt instruments such as bonds and other securities issued by sovereign borrowers, there are, however, no established procedures for the use of payment suspensions or reschedulings for dealing with a debtor's liquidity problems. Accordingly, these types of instruments were the main focus of the Working Party's attention.

20. Decisions on the items to be covered by the workout process must be made in light of the size and composition of a country's liabilities and the prospective impact on its balance of payments. For this reason, the Working Party's attention could not be restricted exclusively to sovereign debt. Private sector debts might in extremis have to be considered in a sovereign workout arrangement in order to ensure that it is successful in stabilising conditions. Also, the distinction between external and internal debts may become progressively less meaningful as debt instruments are increasingly tradable across national borders. International interbank lines constitute a sizable portion of some emerging economies' total debt, and banks in these countries fund long-term domestic claims in the international interbank market. However, since trade credits and interbank lines are essential for retaining commercial and economic links with the world economy, they have so far been excluded from most sovereign workout arrangements.

21. Altogether, the liabilities not covered by existing arrangements for dealing with impaired payment capacity amount on average to over half of the external claims on middle-income countries. To the extent that particular forms of debt are shielded from any restructuring arrangement, an incentive arises in favour of such financing channels (as may have been the case with bonds and other securities in the 1980s and 1990s). To avoid this distortion, it is useful to make it clear to market participants that: (i) no firm lines can be drawn ex ante between types of debt to be covered by orderly workout arrangements, (ii) each crisis must be treated on a case-by-case basis, (iii) depending on the circumstances of the debtor, there will be a ranking of debts with respect to servicing on their original terms, and (iv) the commitment to ongoing provision of new credits could be one factor determining which debts are serviced on time.

22. The liabilities of the private sector are not always immune from the effects of government action. There may be pressure to "socialise" (i.e. for the public sector to take over) some liabilities originally incurred by private sector entities. The Working Party is of the view that such pressures should be resisted wherever possible because socialisation complicates the resolution of sovereign liquidity problems and hampers the efficient operation of the market. However, it also recognises that the banking system is one domain where the domestic authorities may not always be able to avoid some responsibility for private debts if they are to avert a domestic banking crisis.

II. CONCEPTUAL METHODS FOR DEALING WITH SOVEREIGN LIQUIDITY CRISES

23. As noted above, the Working Party expressed a distinct preference for an incremental approach building on existing procedures and practices. Such a conclusion is the result of a thorough review of some alternative conceptual approaches, to which the present section is devoted. The Working Party agreed that the provision of large-scale official financial support for sovereign debtors was warranted only in exceptional circumstances. Such an approach may involve the use of official funds to enable the debtor country to service its debt to private creditors. This result would obviously be inconsistent with the principle of equitable burden sharing and the general aim of limiting demands on official resources. In addition, it would give rise to moral hazard on the part of both debtors and creditors since official funds would be used to insulate them from the consequences of deficient debt management or inadequate risk assessment. Therefore, this section looks at other possible approaches. It begins with a brief discussion of bankruptcy procedures and other formal arrangements and whether it would be appropriate and feasible to apply them to sovereign debt in an international context. It then considers the option of minimal official involvement, the so-called market solution. The section concludes with an examination of the main features of existing arrangements.

A. Bankruptcy and other formal arrangements

24. There is no international bankruptcy code for private or public sector borrowers. In order to consider whether such a code would help to contend with the liquidity problems of sovereign borrowers, it is useful to examine the economic aims and operation of existing corporate insolvency procedures. In a national context, bankruptcy arrangements provide court assistance for the orderly treatment of the debts of insolvent private or, in some cases, local government entities.

25. Although differing from one jurisdiction to another, notably in the balance of rights and obligations of debtors and creditors, bankruptcy procedures can be said to have two basic economic purposes. Firstly, by specifying ex ante rules for the distribution of partial or delayed payments on impaired debt claims among different classes of creditor, they reduce uncertainty and make it easier for markets to price risk. Bankruptcy procedures do not in this respect substantially increase moral hazard on the part of the debtor if they do not significantly alleviate the pain for the debtor that is associated with insolvency. Secondly, by providing the debtor with temporary protection from its creditors and access to interim finance with some form of de facto seniority, bankruptcy procedures enable an enterprise whose value as a going concern exceeds its break-up value to continue to operate. To this end, it may be necessary to provide the debtor enterprise with protection from creditors who wish to invoke remedies available to them individually as a result of the non-performance of the debt contract, and at the same time to enable creditors to influence the management of the company - or even replace the management. This latter threat helps to reduce problems of moral hazard on the part of the debtor.

26. Despite their advantages in a national context and some theoretical appeal by analogy in an international context, formal insolvency procedures do not appear to be either appropriate or feasible now or in the foreseeable future as a means of dealing with sovereign debt problems, for the following main reasons:

- The analogy does not apply in some crucial respects, as it would be neither appropriate nor possible to replace the authorities responsible for the economic policies of a sovereign state with a "new management", or to take possession of a state's non-commercial property.
- The need for additional protection from creditors has not in the past been a serious problem for sovereign debtors. Such debtors have few assets to seize and some of these benefit from sovereign immunities.
- Any international insolvency convention would inevitably involve a long and cumbersome negotiation process as it would be necessary to narrow the gap between the currently diverse objectives and philosophies of individual countries' bankruptcy legislation and practices and to reach agreement on matters affecting countries' sovereign rights.
- Many of the same results could in principle be achieved in more informal ways that would not require such fundamental institutional reform.

27. It has been suggested that existing international arbitration procedures, which can be used as an alternative to court proceedings, might also provide some insight into how analogous procedures could be developed for sovereign debtors. However, this approach does not seem viable for workouts involving debt in the form of securities even though there is nothing in principle to prevent arbitration being used by interested parties. Arbitration is a method of dispute resolution which, unlike court proceedings, depends upon the consent of all the parties involved. Unless arbitration is provided for in the original contract or is unanimously agreed to by all interested parties after a dispute arises, the large, diffuse and changing community of creditors poses serious practical difficulties for gaining unanimous consent, particularly when what is meant in law by "consent" varies from one jurisdiction to another. Moreover, international arbitration procedures were essentially devised for use in connection with bilateral contractual arrangements and could not be easily adapted to resolve disputes that may arise from multi-party contract renegotiations such as international debt offerings. However, no obstacles to the use of mutually agreed upon arbitration by interested parties should be imposed.

28. It has also been suggested that mediation and/or conciliation procedures might be used in resolving sovereign liquidity crises. Although such procedures can be less confrontational than arbitration or court proceedings, they do not result in binding or enforceable rewards. Accordingly, existing mediation and conciliation procedural rules, which are in any case not widely used, could not easily be applied to a dispute of the sort likely to result from a sovereign liquidity crisis. Binding provisions requiring parties to a dispute to go through mediation and conciliation sometimes also delay the resolution process.

29. On balance, formal procedures suitable in a national context or those developed for dealing with private international commercial disputes would not at present be a feasible way to resolve

the problems arising in connection with a sovereign liquidity crisis. While it was pointed out that bankruptcy procedures may warrant further study by other interested parties, the Working Party recognises that such procedures do not in current circumstances or in the foreseeable future provide a feasible way of dealing with sovereign liquidity crises. In addition, as is discussed below, formal mechanisms intended to provide explicit official approval of the suspension of debt payments are not needed in the present circumstances. The Working Party therefore focused its attention on procedures that do not require fundamental changes in international laws and conventions and could be implemented more quickly.

B. Relying on market solutions

30. An alternative to large-scale institutional reform would be to let debtors and creditors work out problems on their own, without any official involvement whatsoever. Clearly a major attraction of this approach is its potential to deal effectively with the moral hazard problem. Many of the market participants surveyed in the course of this work broadly supported this approach and expressed a strong preference for it (see Annex III).

31. Even though some respondents expressed the belief that certain large institutions would have incurred sizable losses if the official sector had not provided support for Mexico, many market participants saw no major or generalised risk to the creditor countries' financial systems arising from losses that some institutions might suffer during a typical sovereign liquidity crisis. This is because the re-emergence of bonds and other securities has increased the dispersion of debt holdings, thus spreading the impact of the losses in the event of a crisis, compared with the past when syndicated loans were concentrated in a smaller number of institutions.

32. A separate concern expressed by market participants was that some of the proposed innovations would interfere with their ability to sell freely the securities they hold. This concern related in particular to the introduction of clauses in bond contracts that would provide more explicitly for renegotiation in the event of default and the ex ante establishment of bondholders' associations. The investor community, and especially those that favour a more arm's-length relationship with the borrower, interpreted such innovations as implying that they would not be able to transfer their holdings freely during any renegotiation period. However, none of the options considered viable by the Working Party is expected to impede the transfer of creditors' claims.

33. Against a background characterised by the absence of serious losses on bonds and other securities during their professional lives, the interviewees were on balance broadly satisfied with the status quo and in general did not favour major innovations, although some expressed an interest in a clear statement of the "rules of the game" by the official community. In the view of many market participants, bonds represent an arm's-length source of finance, and the obligation to repay should be considered almost as "sacred" by the debtor. Private investors' aversion to official sector intervention in the formation of a workout process appears to be rooted in the suspicion that this intervention may tilt the balance too much in favour of the debtor. The arguments against official sponsoring of new arrangements were that such arrangements would be invoked too early, would be less favourable to creditors, would raise the cost of funds to borrowers, would narrow the

investor base and could potentially heighten the risks of contagion compared with the status quo. Market participants were confident that the market is capable of devising any feasible value-enhancing innovation on its own.

34. The reactions of the market participants - as suggested by the explicit indications provided by some - may have been influenced by their expectation that the official sector would in fact continue to play a very significant role in the management and resolution of a liquidity crisis. In particular, given that voluntary private provision of fresh money to the debtor facing repayment difficulties was considered unlikely, it may have been assumed that the necessary liquidity would be provided by the official sector, especially in the most severe cases. However, other respondents indicated that the awareness that official support would not be forthcoming in the event of a crisis would tend to make market participants pay greater heed to risk assessment.

35. The Working Party felt that, while there is much to say in favour of minimising interference in the market process, the extent of public concerns likely to be at stake when a liquidity crisis occurs provides sufficient justification for the authorities to look for ways to foster cooperative efforts by debtors and creditors to contend with unexpected payments problems.

C. Existing practices and procedures

36. Current practices for handling sovereign liquidity crises were developed over the course of the past few decades to contend with real-world problems in a pragmatic and flexible manner. They involve national authorities and multilateral institutions, but are informal and take account of conditions prevailing in the market. They allow the case-by-case application of a few broadly accepted general principles and lend themselves to evolutionary development. However, the changing financial and economic environment poses new challenges to the capacity of these procedures to deal expeditiously with liquidity crises, as the coverage of various types of debt is incomplete for countries with access to international capital markets.

37. An articulated set of procedures and principles for dealing with bilateral official debt problems has been developed within the context of the Paris Club. These procedures provide for the rescheduling of payments due on long-term and medium-term credits granted or guaranteed by national governments. In exceptional cases they are used for short-term debts. At present they are used primarily in the case of sovereign debtors which do not have regular access to the international capital market. Debt rescheduling alleviates liquidity problems that threaten to lead to default, and the Paris Club has been largely successful in regularising the payments situation of sovereign borrowers.

38. The decision to seek a rescheduling rests with the debtor country. Since such a step has consequences for the debtor's credit standing and for the cost and availability of finance from the market in the future, it is exceptional and is not taken without exploring the alternatives. Before an initiative is taken, estimates of both the financing gap and the need for the adjustment of the terms on existing debt are made with the assistance of the IMF. In making such projections, considerable thought is given to economic adjustment even before the negotiations are formally started. An IMF programme must be in place before a rescheduling is agreed.

39. Paris Club procedures are informal and based on consensus embodied in the agreed Minute. In other words, there is no international statutory law which governs the procedures. The official creditor community is small and cohesive. This has been a key factor in making these procedures function.

40. A second factor which has contributed to the success of the process has been the use of a set of general principles which are broadly accepted by creditors and debtors alike. One principle is that rescheduling should enhance the value of existing claims by promoting the pursuit of sustainable economic policies and thereby fostering new money flows. Conditionality and continued monitoring are therefore integral components of the process, with the IMF serving as the key institution in this context. Because the circumstances in different countries vary, the terms and conditions need to be agreed case by case. One feature characteristic of Paris Club rescheduling is the use of a cut-off date, which provides some assurance that new credits will have seniority.

41. Another broadly accepted principle is comparability of treatment with respect to both creditors and other debtors. This takes a variety of forms. One is equal burden sharing among participating creditor countries, with the burden being allocated according to exposure. In addition, comparable treatment clauses enjoin the debtor country not to gránt preferential treatment to creditors which are not represented in the Paris Club. The use of various formulas, such as those promulgated at Houston, Toronto, London and Naples, helps to ensure comparable treatment of different classes of debtors based on their objective economic and financial situation.

42. The London Club process for rescheduling sovereign debt owed to commercial banks is considerably more diffuse than the Paris Club process, partly because the community of creditors is both larger and more heterogeneous. Only a small proportion of the banks participate directly in the negotiations by sitting on the ad hoc bank advisory or steering committees which are generally set up after a debtor has suspended payments.

43. Nevertheless, in its reliance on convention rather than statute and the use of various contractual devices to foster equitable treatment and reduce free riding, the London Club resembles the Paris Club. Under the bank advisory committee approach, a borrower reaches an agreement with key creditors to endorse a set of terms that are then presented to the entire community of bank creditors for their acceptance or rejection. One common set of terms (or menu of options) is presented to all bank creditors simultaneously.

44. The terms incorporated into some London Club agreements have been influenced by those agreed upon in Paris Club reschedulings because the agreed Minute of the Paris Club contains comparable treatment clauses obliging debtors to seek similar terms with other creditors. It has often taken considerable time to obtain the final agreement of the hundreds of creditor banks not represented on the steering committee. In some cases, sales of debt by small creditor banks have helped reduce the number of creditors and eased the process of reaching agreement.

45. At present there are no permanent forums for other types of creditors or for groupings based on the type of obligation. In the period prior to the Second World War, national groupings of bondholders were formed, sometimes with the endorsement or support of the national authorities.

More recently, ad hoc groupings of other creditors, such as uninsured suppliers with substantial claims on Russia, have eventually sprung up when it has been in their interest. The problems of communication and coordination are greater for non-bank creditors than for banks both because this community is larger and more diffuse and because its membership is more likely to change since some of the debt is negotiable. This issue is considered later in the report.

III. IMPROVING THE ENVIRONMENT FOR HANDLING CRISES

46. Prevention is far better than ex post resolution. Since efforts are under way in other forums to strengthen preventive mechanisms, the Working Party decided not to consider this matter in any detail. It limited its analysis to the potential advantages, as well as costs, of certain specific precautionary measures that could prove useful in the event of a crisis. Such measures include the collection of more detailed statistics on international (sovereign) debt, the strengthening of the financial systems in debtor countries and the possible incorporation into debt contracts of standard clauses aimed at improving debt holder representation and reducing the scope for disruptive debt holder behaviour in the event of a crisis. Rapid and effective crisis management will also require cooperation and communication among the authorities with a stake in the process, and will be facilitated if the debtor takes early action to deal with the problem.

A. Prevention

47. Prevention is the first and most fundamental element in crisis management, and the best preventive measure is the pursuit of sound economic policies. In today's highly integrated markets, reliable and comprehensive information about policies and economic conditions are particularly important.

48. At present, the IMF is seeking to refine its methods of surveillance, through which governments can encourage one another to adopt sound macroeconomic, structural and debt management policies. Greater detail is now available in press releases on IMF programmes and in other published forms, and detailed factual information derived from Article IV reviews is frequently released; these steps may help to enhance market discipline. In autumn 1995 the Interim Committee endorsed the establishment of standards for the provision to the public of economic and financial data that will permit the effective monitoring of countries' macroeconomic policies. An agreement on the establishment of a voluntary set of standards for countries that attract significant private external credit is expected shortly. Various committees and groupings meeting under the umbrella of the BIS and other international organisations are developing procedures for promoting the soundness of banks and other financial institutions and for strengthening financial markets so that the inevitable shocks and disruptions are not amplified and their systemic repercussions are contained. In order to avoid unnecessary duplication of this work, the Working Party welcomed such efforts but did not dwell on these dimensions of crisis prevention.

B. Improving external debt data

49. There is close complementarity between the information needed for the prevention of crises and that needed for their handling and resolution. For both purposes it is desirable to have accurate, timely and comprehensive information on economic conditions in the borrowing country. Market participants were unanimous in their view that it would be desirable to have more and better information, particularly with respect to the expected cashflows of the debtor government and the currency, maturity and instrument composition of the debtor's obligations. Many investors also mentioned that sufficient information should be available about the foreign assets and liabilities of the domestic banking system, with particular attention paid to short-term liabilities. Although understandable, market participants' views on their information needs may be unrealistic, given the cost of collecting such data. Moreover, it also appears that some market participants are not aware of all the information that is currently available and do not use the available information adequately in their investment analysis.

50. Some of the data that market participants desire could be collected from them, although at some cost, and from debtor-supplied information, which will be increasingly available under the voluntary standards referred to earlier. In some cases it may be more feasible to collect data on debtors' external liabilities from information on the size and composition of creditors' claims. Any increase in the coverage, timeliness or frequency of data compiled from the creditor side would add to creditors' reporting burdens, but the creditors would also be the principal beneficiaries. The Working Party endorses efforts under way to improve data on external indebtedness.

C. Strengthening the financial system in debtor countries

51. Structural weakness in the banking systems of debtor countries could seriously aggravate sovereign liquidity crises. This is particularly the case when banks fund a sizable amount of longer-term domestic lending by borrowing in the wholesale interbank markets of the main international financial centres. The decision by these banks' creditors not to roll over such funding could generate a severe domestic banking crisis. If the debtor country government provided extensive support for the banking sector in such circumstances, its own financial position could deteriorate significantly. If the foreign offices of such banks were affected, this could have supervisory and regulatory implications in the host countries.

52. Recognising the potential vulnerability of banking systems in many indebted countries, and its implications for approaches to sovereign liquidity crises, the Working Party concluded that further work should be undertaken on these issues in the appropriate international forums. This work could consider (i) what further steps could be taken to strengthen financial systems in emerging market countries, in particular banking systems, for example by devising and enforcing strict prudential standards, including those relating to foreign borrowing, particularly when this entails maturity mismatches and exchange rate risk, and (ii) how best to deal with potential liquidity crises in the banking system arising from the loss of short-term funding.

D. Developing contractual underpinnings: model clauses in international bond issues

53. Certain contractual provisions, if broadly contained in international debt contracts, could help to facilitate debt holders' decision-making and hence the resolution of a sovereign liquidity crisis as well as have other benefits in fostering dialogue and consultation between a debtor and its creditors. In addition they may promote cohesion among creditors and reduce the incentive for, or ability of, a small number of dissident creditors to disrupt, delay or prevent arrangements supporting a credible adjustment programme that are acceptable to the vast majority of the interested parties. There is a wide range of such clauses. Some are already included in many syndicated loan agreements and some bond contracts. Three clauses that might prove useful regardless of whether they are explicitly linked to the resolution of sovereign liquidity crises provide for (i) the collective representation of debt holders, (ii) qualified majority voting to alter the terms and conditions of the debt contract, and (iii) the sharing of proceeds among creditors. Other clauses with similar aims could be drafted by market participants as a substitute for or complement to these clauses and incorporated into debt contracts in the light of the specific needs of the parties to the contract.

54. There appears to be very little experience with such clauses in workouts involving international bond issues, and consequently no solid information is available on precisely how they would operate. Most of the market participants surveyed expressed some scepticism about the usefulness of including this type of clause. However, some indicated that they were in favour of the use of contractual clauses that would give them some assurance about how a crisis would be resolved. There is no way of knowing, a priori, whether clauses facilitating the resolution of sovereign liquidity crises would noticeably affect the cost of borrowing if they were to become more prevalent and actually be invoked in workout situations. However, it is worth noting that there are two potential effects on the cost of borrowing that work in opposite directions: (i) such clauses might lead markets to expect that debt service interruptions and modifications would be more likely; but (ii) they might also reduce the uncertainty surrounding the debt workout process and increase the value of the obligations in a crisis situation. To the extent that the inclusion of such clauses raised the cost of borrowing because the risks were more apparent, this could be seen as a benefit rather than a drawback, although issuers are unlikely to share this view.

1. Collective representation

55. Providing holders of international securities with effective arrangements for communicating with other holders and with debtors and, if desired, appointing representatives would be beneficial. The existence of such arrangements could be expected to make international debt restructurings proceed more quickly and smoothly in the event of a liquidity crisis. Where collective "representation" clauses are incorporated in bond contracts, they typically provide procedures for the organisation of bondholders and the designation of a representative. In general, debtors and creditors are free, subject to statutory restrictions in certain jurisdictions, to include in their contracts whatever provisions they choose concerning the representation of debt holders and the coordination of debt holder action. Practices in this regard vary widely according to national

traditions and the particular circumstances of individual contracts. International bond issues rarely provide for extensive forms of collective organisation or representation of debt holders. In many cases they only make provision for an agent (such as a fiscal agent, which is not a representative of the bondholders) authorised to call meetings and to issue notices. Where collective representation of bondholders is provided for in advance by contract, the powers of the representative vary. However, the representative rarely has the power to make significant decisions for the holders.

56. Ad hoc arrangements for coordinating action by debt holders or appointing a representative for them may also arise in response to a crisis. Indeed, this has happened on a number of occasions. Such ad hoc arrangements may, however, take time to put in place.

2. Qualified majority voting clauses

57. Qualified majority voting clauses enable changes to be made in the terms of a bond contract without the unanimous consent of the holders. Decisions made according to these arrangements are binding on all holders of the debt. Such clauses could be expected to facilitate the workout process in the event of a sovereign liquidity crisis, since they limit the scope for a small minority of creditors to stall or block the process.

58. Some bonds already have qualified majority voting clauses, such as some of the eurobonds governed by English law, which allows issuers and originators to include such provisions. There is no quantitative evidence that bonds with such clauses are priced much differently by the market. Many investors may not even be aware that the debt instruments they hold contain these clauses.

59. The resistance to qualified majority voting clauses expressed by market participants in some countries may be attributed to a lack of familiarity with such clauses in their national context. Increased public awareness of the extent to which qualified majority voting clauses are already used in some bonds, and official support for efforts by the private sector to make greater use of such clauses, should, over time, allow market participants to become more familiar and comfortable with the clauses both in principle and in practice.

3. Sharing and similar clauses

60. Sharing, non-discrimination and comparable treatment clauses could facilitate the market process by discouraging dissident creditors from engaging in disruptive action and by obliging debtors to treat creditors in a fair and equitable manner. However, there is little experience with the effects of such clauses when the community of creditors is large and dispersed, as in the case of bonds. Sharing clauses are covenants among lenders and debtors for the lenders to "share" payments received from a debtor on an issue-by-issue basis. Although the practice in drafting sharing clauses varies across jurisdictions, the clauses may reduce the incentive for individual creditors to take independent legal action against the debtor, as any successful creditor would have to share any assets or payments received from the debtor with the other creditors. Limiting the application of such clauses to the holders of a particular bond issue, rather than applying them to the totality of creditors, would help to promote cohesion among creditors without unnecessarily increasing the cumbersomeness of debt restructuring negotiations.

61. Non-discrimination and comparable treatment clauses help to ensure equitable treatment of creditors and, indirectly, to reduce free rider problems. A non-discrimination clause enjoins the debtor not to grant more favourable treatment to other creditors which are party to the agreement. If the debtor does so, the participating creditors can usually, inter alia, demand the acceleration of the payments due to them. These clauses do not prevent the debtor from seeking better treatment from creditors which are not party to the agreement. The comparable treatment condition requires the debtor to seek comparable concessions from other creditors.

4. Design and introduction

62. Market participants are in the best position to assess which contract clauses would most effectively promote speedy decision-making by bondholders without unnecessarily raising the cost of capital for sovereign borrowers. More extensive use of such provisions should therefore be based on a market-led process, with the initiative being taken and further developed by the private sector, rather than enforced through a process of harmonisation of national legislation or the negotiation and ratification of an international treaty. However, encouragement and support from the authorities can be helpful, as was demonstrated in the development of standardised documentation for swaps and other derivatives.

63. Because new clauses would be included only in newly issued debt, it would take some years before the bulk of any country's debt contracts would contain such provisions. Nonetheless, general acceptance by the market of the desirability of such clauses could create a climate conducive to cooperation between debt holders beyond the legal provisions presently incorporated in contracts.

64. New clauses designed to facilitate decision-making by bondholders would be most suitable for contracts with borrowers whose access to capital markets is less well established. Individual issuers might be reluctant to be the first to adopt new provisions because of the fear that this would raise funding costs, although this reluctance might be less if the clauses were seen as providing for general contingencies and not just for debt service interruptions. In addition, many countries with well-established borrowing records will no doubt also be reluctant to adopt such clauses, thus weakening their attraction for other borrowers. Use of the clauses could facilitate a workout process, and it can be argued that these provisions should be potentially attractive to investors in the case of issues of countries whose access to capital markets is less well established.

65. The Working Party is of the view that it would be both natural and appropriate for the private sector to take the lead in the development of new clauses and that such efforts should receive official support as appropriate.

E. Improved coordination and communication

66. Rapid concerted action may be required, particularly at the time of a major crisis, in order to limit adverse consequences for debtors, creditors or other parties. The Working Party stressed the importance of quick and informal consultation among key public authorities. However, it refrained

from proposing institutional changes or detailed procedures, which might not be in line with the need for a case-by-case handling of specific liquidity crises.

F. Early action by debtors

67. The willingness of debtors to provide information, to engage in dialogue with creditors and with the official community and to make timely adjustments in their macroeconomic policies is essential at the time of a crisis and for its ultimate resolution. Debtors must adopt sound macroeconomic policies and remove structural distortions which have arisen. Avoiding the build-up of too much short-term debt is important in this context. Decisions regarding exchange rates are crucial. There is the risk that the maintenance of an inappropriate exchange rate would convert any entity's liquid domestic currency claims into a call on the foreign exchange assets of the country.

IV. CRISIS HANDLING

68. When a country encounters difficulties in meeting its debt payments, challenges arise for all parties involved, namely the debtor country itself, its private creditors and the official community of creditor governments and multilateral organisations, particularly the IMF. These three sets of actors involved in a crisis have partially, but not always totally, different objectives and responsibilities. All of them will gain from a smooth and cooperative crisis resolution process.

69. Each party has a range of options, whose desirability and feasibility depend on the circumstances prevailing. This section considers what steps might be taken that would accord with the interests of the individual parties and foster compromises conducive to a speedy resolution of the crisis. The relevant issues are discussed in the following order: (i) the combination of adjustment and financing, (ii) the objectives and possible courses of action open to the debtors, creditors and the official community, (iii) a possible suspension of payments, (iv) the possibility for the IMF to approve an economic adjustment programme in cases where the debtor has not yet restructured its debts to other creditors, and (v) the implementation of a cooperative strategy involving all the parties concerned.

A. The combination of adjustment and financing

70. Typically, a country's inability to service its debt is associated with protracted balance-of-payments difficulties and the virtual exhaustion of its reserves. In such situations some countries will already have consulted the IMF on an appropriate economic adjustment programme, which is crucial for the resolution of the problems. They will probably also have approached existing and potential new creditors to ask about rolling over loans or obtaining additional finance. In these cases many of the contacts essential for handling the crisis will have been established, though it may be necessary to put them on a different footing. However, countries relying on international financial markets for capital but suddenly affected by a sharp change in market sentiment may not have been in close consultation with the IMF. Moreover, in some cases there may be a period before the crisis when the country is unwilling to discuss its problems with the IMF for fear of

precipitating the very crisis whose imminence it is denying and when the financial markets and the international official community fail to recognise the seriousness of the situation. In such cases, the crisis is likely to be more abrupt and severe.

71. At the time of a crisis the interested parties will each have to make judgements on the appropriate combination of adjustment and finance and in what form and from which source finance is likely to be available. At this time the debtor will have to determine whether and to what extent a suspension of debt service payments may be unavoidable, in full awareness of the high costs involved. Eventually the decisions will need to converge into a consistent set of actions conducive to the speedy resolution of the crisis and allow any temporary initiatives to be replaced by longer-term arrangements.

72. In all cases economic adjustment programmes must be the pivot of the process. The stronger such programmes are, the less will be the danger of moral hazard and the sooner the debtor country will be likely to be able to regain access to capital markets. Such programmes will typically include an immediate tightening of monetary policy, a credible fiscal package and possibly some exchange rate action, which may have to be weighed against other considerations if the exchange rate has been used as an anchor in the debtor's stabilisation efforts. Microeconomic measures also have a role to play in restoring equilibrium to the balance of payments. In combination these actions will help to stem capital flight and encourage lenders to keep normal lines of credit open.

B. The role of the debtor, creditors and the official community

73. The aim of the debtor is to promote the long-term economic development of the country. This will entail minimising the impact of a crisis on the cost of capital and regaining access to the international capital market, if interrupted. To do so it will have to adopt a set of policies which will remedy the problems that gave rise to the liquidity crisis in the first place. However, since excessively rapid adjustment may have unacceptably high economic, social and political costs or may simply not be feasible, some appropriate combination of financing and rescheduling may be needed to allow the debtor country to follow a sustainable adjustment path.

74. The aim of the private creditor is to maximise the value of its portfolio of assets. For creditors which have a long-term interest in the country, this may entail the provision of new money and/or the adjustment of the terms on existing debt, as appropriate. For creditors with no such commitment or substantial financial interests, it may involve readjustment of the composition of investment portfolios through the sale of impaired assets. However, even those investors with no long-term commitment may be able to increase the value of their claims by not rushing for the exit but instead accepting the adjustment of terms, thereby counteracting the tendency for secondary markets to overreact and unduly to discount the claims on the debtor country.

75. The aims of the official sector (governments of creditor countries and multilateral institutions) are to minimise systemic risk, to contain contagion, to address market failures and to restore prosperity to the debtor countries. As creditors, the official sector also seeks to restore the payment capacity of the debtor while minimising reliance on official funds so as to reduce moral hazard.

76. Apart from having somewhat different goals, the three sets of actors have different instruments and courses of action available to them. The debtor's instruments are the speed and nature of the adjustment programme and the options of instituting capital controls and/or suspending payments on its debt obligations. For banks and other private creditors, the main instrument is the option to provide or withhold new loans, but creditors can also sell their claims, seek legal recourse, decide to accept a suspension of payments declared by the debtor, or agree to alter the terms of existing credit. The main instruments of the official sector are signalling confidence in the good faith of the debtor and the economic soundness of its adjustment programme and providing the prospect of limited finance, subject to conditionality, to foster the resumption of spontaneous inflows.

77. Because their objectives and responsibilities differ to some extent, the three sets of actors may face collective action problems which can arise within as well as across the different groupings. In these cases independent actions taken by individual actors for their short-term self-interest could result in a reduction in overall economic welfare. Even if all three parties act in ways that are appropriate to their own long-term best interests, there may remain a balance-of-payments financing gap that requires exceptional financing. In such a case tripàrtite cooperation is essential. There are difficult trade-offs between self-interest and burden sharing for the common good. The moral hazard entailed in providing such financing creates future problems beyond the case at hand.

78. In dealing with a crisis, it is important for all parties concerned to recognise that a non-cooperative and confrontational approach, characterised by a prolonged stalemate, would not only exacerbate the adjustment costs to be borne by the debtor country. In some circumstances it could also pose a risk of disruption to world financial stability and jeopardise the ability of official and private creditors to protect their claims. By contrast, a cooperative procedure would produce an orderly and more expeditious resolution of the crisis and help contain any contagion and systemic effects and minimise the costs of the crisis to all the principal parties involved. While the specific measures implied by this cooperative approach, which underlies current procedures, will be determined on a case-by-case basis, some basic principles are crucial and should also apply if the approach is extended to new classes of debt.

79. The debtor country has the primary responsibility for setting the process on a cooperative footing, by informing the other parties of emerging difficulties, involving the IMF actively and very early on in the resolution of its problems, and adopting strong domestic measures to deal with the crisis ahead of any other action. The treatment of a debtor country by creditors should be influenced by the debtor's economic record and past history of cooperation and consultation, by its willingness to provide information and engage in dialogue at the time of a crisis and by its readiness to accept an appropriate degree of conditionality ex post. Adjustment on the part of the debtor is the central ingredient of any solution. Still, in the absence of new financing, the degree of adjustment required to meet international obligations may impose such high costs that it is not in the interest of either the debtor or the international community as a whole.

80. Because private creditors are numerous and dispersed, the question arises as to how they can be most effectively involved in the resolution of a crisis. Representative groupings may spring up when a crisis occurs even if there are no ex ante provisions for collective representation, but the process may be quicker and more orderly if there are provisions allowing for the appointment of a debt holders' representative and the assignment, as appropriate, of powers and obligations to such a representative. Private creditors can also contribute to an orderly process by voluntarily refraining from exercising contractual or statutory rights whose primary purpose is to dissuade liquid and solvent borrowers from delaying payment, but they will only do so if this improves the long-term prospects that they will be repaid. Creditors must therefore be convinced both that the debtor is genuinely unable to pay and that the likelihood of receiving payment will be increased by voluntary restraint. If most of creditors are so convinced, they may wish to persuade dissident creditors to refrain from disruptive behaviour without restricting individual creditors' legitimate rights. Since some creditors may have no interest in a workout process, obstacles should not be placed in the way of sales of distressed debt. In this way the creditor community may become more homogeneous or at least more inclined to participate in debt restructurings and other aspects of debt workouts.

81. The role of the official community is complicated by the fact that it often has an existing or prospective credit exposure to the debtor. National authorities may wish to pursue their interests as creditors of the distressed country. Their aim will be to maximise the long-run value of their claims on the debtor. But they also have a wider interest in ensuring that problems in one country are contained and that threats to the stability of the world financial system are minimised. In some, perhaps many, cases it may be advisable for the official sector to be restrained in its approach and allow debtors and creditors to work out their differences on their own.

82. The IMF has a special role to play in this context, acting both as adviser to the debtor and to the creditor countries, and as the body best placed to make an informed assessment of the debtor's capacity to pay. Agreement with the IMF on an adjustment programme as a precondition for debt reorganisation is a way of containing the debtor's moral hazard. The IMF provides information to the Paris and London Clubs, and could also offer to facilitate discussion with representatives of bond holders, and other private creditors. An IMF-supported programme will generally entail the extension of official finance and perhaps also presume some relief on outstanding debts to private creditors. In exceptional circumstances as discussed later in this report, the IMF may decide to lend to a debtor making strong adjustment efforts even when that debtor is likely to remain in arrears on its debt obligations to certain private creditors.

C. Temporary suspension of payments

83. A fundamental principle underlying all contracts is that the terms and conditions are to be met in full and on time. The Working Party strongly endorses this principle. At the same time it recognises that in certain exceptional cases the suspension of debt payments may be part of the crisis resolution process. Temporary payment suspensions are a way of gaining time when a crisis

occurs. Given the costs of such action, it will not normally be undertaken until all reasonable alternatives have been explored.

84. A distinction is sometimes made between payment suspensions occurring as a result of unilateral action by debtors ("moratoria") and those undertaken with the explicit or implicit agreement of the creditors ("standstills"). This distinction is, however, not hard and fast since an initial moratorium may soon be accorded tacit agreement by the creditors. The more relevant distinction, for the purpose of achieving an orderly workout, is that between payment suspensions which are part of a process of cooperative and non-confrontational debt renegotiation, and those which are of a more adversarial nature. The latter are more likely than the former to generate antagonistic reactions by creditors such as uncooperative confrontations, obstructive and disruptive tactics, withdrawals of funding, and resort to legal remedies and attempts to seize assets.

85. However, as discussed above, a suspension of payments, whatever form it takes, carries risks for the debtor country itself and also raises a number of practical issues:

- What range of claims should be covered by the suspension?
- Can there be some formal or informal method of signalling that the debtor is acting in good faith and making every effort to solve the underlying problems?
- Assuming a non-confrontational process, should ways be devised to protect the debtor against the behaviour of dissident creditors which are unwilling to refrain from obstructive and disruptive tactics such as seeking legal remedies in spite of an agreed standstill?

86. On the question of the spectrum of claims to be covered, a suspension of payments will in general be applied uniformly to all claims in a particular class but will differ in scope depending on the severity of the liquidity problem, the composition of the country's obligations, the prospective contribution of a particular creditor class to the restoration of balance-of-payments equilibrium and other considerations. In the case of obligations to multilateral institutions, which enjoy de facto preferred creditor status, debt service payments are to be continued with the limited resources available. It may no longer be possible to exempt bonds and other claims because of their increased importance. Each case will have to be considered on its merits, taking account of the fact that trade credits and interbank lines are crucial for maintaining links with the world economy.

87. A distinction should be made between the suspension of scheduled interest payments and principal payments. Ordinarily, missed interest payments are viewed more negatively by the market than are missed principal payments.

88. It must also be recognised that if the suspension of payments is extended to obligations of the private sector, this may require the use of formal or informal exchange controls. However, the resort to such controls, even temporarily, can have long-lasting adverse effects on a country's access to international capital markets and may not be practicable once a country has completely liberalised external payments and dismantled the machinery for imposing controls. Debtors may nonetheless be tempted to resort to such controls to slow a "rush for the exit" by holders of claims, including domestic holders, which have come to believe that a suspension of payments on their

claims can occur soon.[2] In the case of marketable claims, however, sales may be discouraged by sharp falls in prices caused by the expectation that controls will be imposed; this effect can be reinforced by a depreciation of the domestic currency. When appropriate, a degree of exchange rate flexibility could help to conserve the country's remaining foreign exchange reserves and may even obviate the need to obstruct the servicing of the private sector's obligations.

89. On the question of signalling that the debtor is making every effort to resolve its problems, the Working Party observed that there are no formal means for explicitly approving decisions by sovereign debtors to suspend payments. National legislation in the main jurisdictions where sovereign debt contracts are issued does not provide for such procedures. The question has been raised whether one could contemplate the use of the Articles of Agreement of the IMF, most notably Article VIII 2(b), for this purpose. National courts interpret this article in widely diverging ways, and a harmonisation of interpretations on the basis of a formal IMF interpretation is not to be expected. For instance, the Article could not easily be construed as covering the case in which a sovereign debtor interrupts its own payments. The Working Party is of the view that it is not feasible to operate a formal international instrument of this kind.

90. It is important that the measures taken by the authorities not interfere with the liquidity of the market for debt instruments. Investment fund managers and other similar agents may have a fiduciary obligation to alter the composition of their portfolios when a sovereign liquidity crisis arises, and need well-functioning markets in which to operate. Moreover, the transfer of claims to those with specialised skills in the workout of impaired claims may facilitate the resolution of the crisis. Authorities should also not be unduly concerned about sharp swings in the prices of debt instruments of countries facing payments difficulties. Admittedly, market reactions are sometimes excessive. Concern about the possible imposition of exchange controls may induce market participants to "rush for the exit", which exacerbates price movements. However, overshooting does ultimately lead to natural subsequent price corrections.

91. On the question of the pursuit of individual legal remedies by dissident creditors, the Working Party reached the conclusion that the seizure of assets has not been a serious problem in the past. This is partly because sovereign debtors have few assets located outside their own territories, and some of these benefit from sovereign immunity. In addition, uncertainty about what decisions the courts will make and about how long it will take and how much it will cost to obtain a final judgement discourages casual recourse to legal remedies. On the broader question of obstructive or disruptive behaviour on the part of dissident creditors, the Working Party believes that the resolution of sovereign debt problems would be facilitated if such behaviour was kept to a minimum. Clauses developed by market participants to promote cohesiveness among creditors might be helpful in this respect.

[2] Restrictions on current payments are subject to IMF approval under Article VIII 2(a). The IMF's definition of current payments encompasses some capital transactions, including "all payments due in connection with foreign trade" and "payments for a moderate amount of amortisation of loans" as well as standard current account transactions.

D. IMF lending policies

92. In normal conditions the IMF extends official finance only in the context of a fully funded adjustment programme and typically requires the clearance of arrears before disbursement or according to a predefined schedule. In the case of arrears on debt due to official creditors, the IMF considers that imminent agreement in the Paris Club in line with the programme's assumptions amounts to the clearance of arrears. Similarly, for arrears to commercial banks, the IMF in principle awaits actual or imminent agreement on the clearance of arrears before approving an arrangement. In exceptional circumstances, however, the IMF may lend in advance of an agreement with commercial bank creditors, while the debtor continues to accumulate new arrears to such creditors, but only if it deems prompt support to be essential for programme implementation, negotiations have begun with bank creditors and an agreement with these creditors is expected within a reasonable period of time. In such cases, the financing of the programme is subject to periodic reviews by the IMF.

93. These cases should remain rare. They expose the official sector to the risk that the debtor will not be able to implement its adjustment programme, and they thus increase the risks associated with the extension of official assistance. Lending into arrears should therefore always be conditioned on very strong adjustment efforts on the part of the debtor country and limited to cases where the debtor country is making reasonable efforts to negotiate with its creditors.

94. In the future, and subject to similar conditions, the IMF might be well advised to extend this practice to debt owed to other groups of private creditors. Lending in such circumstances could signal that the adjustment efforts of the debtor country are strong enough to warrant the support both of the official community, through an IMF arrangement, and of private creditors through an effective restructuring of payments on existing obligations. Such a policy is intended to prevent failure to reach agreement with creditors from holding up implementation of an adjustment programme. The provision of financial support by the IMF can improve the bargaining position of the debtor substantially. Combined with the adjustment programme, this action can signal to the unpaid creditors that their interests are best served by quickly reaching an agreement with the debtor. Thus, a policy of IMF lending in such circumstances needs to be seen as part of a package to give the debtor support in its efforts to implement a comprehensive and credible adjustment programme and to increase the likelihood of agreement with creditors.

95. A policy of lending into arrears potentially provides the IMF and the official community with the opportunity to manage a crisis by signalling confidence in the debtor country's policies and longer-term prospects. The Working Party feels that it would be advisable for the IMF Executive Board to review existing IMF policy in this area and to consider whether the scope of its application should be extended, while remaining mindful of the need for prudence and the maintenance of strict conditionality.

E. The cooperative strategy

96. The conclusion and implementation of an economic programme benefiting from IMF support, irrespective of whether it involves lending into arrears, is part of the resolution of the crisis, not merely part of the efforts to stem the effects of the crisis as it erupts.

97. Indeed, success in reaching agreement on an IMF arrangement can be seen as the beginning of a continuing partnership for the restoration of macroeconomic balance in the country concerned, for the preservation or reopening of its access to capital markets, and more generally for the return of confidence in its growth prospects.

98. Depending on the circumstances, and particularly the size and nature of the financing gap, the successful conclusion of an IMF arrangement in support of an economic adjustment programme will, when relevant, open the way for meetings of creditor representatives such as the Paris Club or the London Club. The Working Party sees no reason to suggest changes in this flexible and cooperative approach, which deals in appropriate ways with official bilateral and commercial bank debt and debt service.

99. However, the principles and procedures that have been developed must take into account the shift towards bonds and other securities, which has resulted in considerable amounts of debt in instruments outside the scope of traditional restructurings. Markets are largely equipped to assess the risks involved in such investments and to price them accordingly. However, the wide dispersion and changing composition of the set of holders of these claims make it difficult to establish mechanisms to serve their collective interests in a debt workout and to endow them with effective means of upholding these interests.

100. The official community has a strong interest in avoiding disruptive adjustment of debtor economies and unnecessary losses to creditors, while minimising recourse to official finance. Accordingly, it should strive to encourage a timely resolution of any payment suspensions on debts to private creditors that may arise, without interfering in the exercise of contractual rights. The Working Party believes that this encouragement should extend to issues of primary concern to debtors and private creditors such as the timely exchange of information and the development of contractual provisions that reflect the growing likelihood that some of the debt in the form of securities may be the subject of renegotiation in the future. While the official community might be able to play a significant role in facilitating dialogue and assisting in data collection, it should leave to market participants decisions regarding contractual provisions. Its primary role should remain centred on the promotion of strong and effective adjustment by debtor economies in the context of IMF programmes, which would need to take into account any recourse to temporary suspensions of payments.

ANNEX I

List of Deputies

Chairman: Mario Draghi

* * * * * * * * * * * *

Belgium:	G. Brouhns	Ministry of Finance
	J.-J. Rey	National Bank of Belgium
Canada:	T. Bernes	Department of Finance
	P. Jenkins	Bank of Canada
France:	J. Lemierre	Ministry of Finance and Economy
	H. Hannoun	Bank of France
Germany:	J. Stark	Ministry of Finance
	H. Schieber	Deutsche Bundesbank
Italy:	A. Zodda	Ministry of the Treasury
	T. Padoa-Schioppa	Bank of Italy
Japan:	T. Kato	Ministry of Finance
	A. Nagashima	Bank of Japan
Netherlands:	H. Brouwer	Ministry of Finance
	A. Wellink	Netherlands Bank
Sweden:	S. Öberg	Ministry of Finance
	S. Ingves	Bank of Sweden
Switzerland:	J. Zwahlen	Swiss National Bank
	G. Colombo	Federal Department of Finance
United Kingdom:	N. Wicks	HM Treasury
	M.A. King	Bank of England
United States:	L. Summers	Department of the Treasury
	E. Kelley	Board of Governors of the Federal Reserve

Observers:

International Monetary Fund:	Deputy Managing Directors
Organisation for Economic Co-operation and Development:	K. Shigehara
European Commission, Brussels	G. Ravasio
Bank for International Settlements:	W.R. White
Secretaries:	T.R.G. Bingham C. Pigott H. Vittas

Members of the Working Party on the Resolution of Sovereign Liquidity Crises

Chairman: Jean-Jacques Rey

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Belgium:	P. Lemaire	Ministry of Finance
	J. Mont	National Bank of Belgium
	D. Ooms	National Bank of Belgium
Canada:	M. Kelly	Department of Finance
	J. Murray	Bank of Canada
France:	J. Haas	Ministry of Finance and Economy
	P.-M. Fremann	Bank of France
	T. Francq	Ministry of Finance and Economy
Germany:	G. M. Röskau	Ministry of Finance
	W. Fritsch	Deutsche Bundesbank
	R. Wölfinger	Ministry of Finance
Italy:	G. Vigliotti	Ministry of the Treasury
	C. Giannini	Bank of Italy
	F. Costa	Ministry of the Treasury
Japan:	T. Kitamura	Ministry of Finance
	M. Takeda	Bank of Japan
	T. Yasui	Ministry of Finance
Netherlands:	A. Deckers	Ministry of Finance
	G. Frankena	Netherlands Bank
Sweden:	S.-O. Johansson	Ministry of Finance
	W. van der Hoeven	Bank of Sweden
	A. Sahlén	Ministry of Finance
Switzerland:	U. Schwarz	Swiss National Bank
	F. Zurbrügg	Federal Department of Finance
United Kingdom:	J. Rutter	HM Treasury
	C. Atkinson	Bank of England
	D. Lawton	HM Treasury
United States:	J. Shafer	Department of the Treasury
	E.M. Truman	Board of Governors of the Federal Reserve
	J. Lister	Department of the Treasury
	D. Howard	Board of Governors of the Federal Reserve

International Monetary Fund:	J. Boorman
	F. Gianviti
	D. Williams
	M. Allen
	J. Ferrán
Organisation for Economic Co-operation and Development:	R. Pecchioli
	C. Lluch
	M. Kennedy
European Commission, Brussels	M. Neilson
Bank for International Settlements:	W.R. White
	M. Giovanoli
	K. Tsatsaronis
	M. Milford
Secretaries:	T.R.G. Bingham
	C. Pigott
	H. Vittas

GROUP OF TEN

—

WORKING PARTY ON
THE RESOLUTION OF SOVEREIGN LIQUIDITY
CRISES

SUMMARY REPORT ON THE SURVEY OF MARKET PARTICIPANTS

This report summarises the responses of a range of market participants in the main financial centres in the Group of Ten (G-10) countries to an inquiry into market practices and attitudes towards sovereign liquidity crises. The surveys were conducted by officials from the G-10 countries in the way each country considered most appropriate. The questionnaire on which the survey was based is annexed to this document together with a list of the institutions surveyed in each country. This summary of the national write-ups follows the sequence of questions in the survey questionnaire and groups together the responses to questions of similar nature in order to facilitate the exposition.

1. Pre-crisis conditions and market practices

This set of questions relates to ex ante arrangements and market practices which have a bearing on the likelihood of a crisis and on how it unfolds when it occurs.

Questions 1-3: Nature of interviewees' involvement in the market for international debt and their past experience with liquidity crises.

The market participants interviewed covered a large array of institutions involved in the market for emerging market debt either as market-making traders, originators and underwriters or as managers of clients' investments in the form of mutual and hedge funds. Only the commercial banks among them had a well-defined institutional memory of the debt workouts in the 1980s. However, many participants have been involved in the trading and handling of defaulted sovereign debt, and some had personal experience of debt workouts in previous positions they held with commercial banks.

The interviewees were active participants in many types of securities traded in the markets of their speciality. While there was a certain tendency for each country's institutions to focus on international bonds denominated in their respective domestic currency, Brady bond issues were a very popular instrument for all types of participants and many references were made to these instruments. Also, most of the European institutions seemed to focus more generally on London-traded eurobonds.

In terms of the types of securities they prefer to hold, many of the participants expressed a slight preference for transferable bearer instruments. It was pointed out, however, that the differences between bearer and registered instruments were becoming less and less important. Institutional investors were in general more inclined than other types of investor to look into equity investments in emerging markets. There was also a differentiation between bank and non-bank institutions in terms of attitudes towards the emerging market clientele. Some suggested that bankers were more likely to take the long view as they have an interest in maintaining business relationships with the borrower, while other types of investors had a more short-term portfolio investment view of their emerging market holdings and valued market liquidity greatly.

Questions 4-6: Risk management, information and credit ratings. Sovereigns vs. non-sovereigns and the pricing of resolution uncertainty.

Although information furnished by the originators and underwriters as well as credit rating agencies provides a valuable input, almost all the market participants relied heavily on in-house analysis generated by their specialised teams. The need for more and better information that would help improve the accuracy of this analysis was mentioned by nearly all the interviewees. The participants place a premium on the availability of accurate and comparable data on the external financial position of the emerging markets' private and public sectors that will enable them to perform a cash-flow analysis. Some market participants felt that more information should be available on the maturity, instrument and currency composition of the public debt and that some emphasis should also be put on the external position of domestic financial institutions.

It is noteworthy that, without minimising the importance of broader coverage, many respondents felt that at the moment greater gains could be made by improving the quality and timeliness of the information that is already provided by the emerging market official sector and the international financial institutions (IFIs). This information should be made available on a comparable basis, be published regularly and reflect the latest developments. Some interviewees also mentioned that in certain cases the failure on the part of some investors to foresee an upcoming crisis could be attributed to inadequate analysis of the information that is already widely available.

Despite the fact that all the respondents said that they were using the credit ratings of emerging market debt issues as an input for their analysis, many expressed doubts about the timeliness with which ratings reflected changes in the riskiness of these assets. Their usefulness was therefore mainly of a supplementary nature.

The participants noted a direct link between the perceived risk of sovereign and private sector obligations in emerging markets. The majority subscribed to the view that no private issuer could be perceived as being of lower risk than the corresponding sovereign (the only possible exception being the local branches of multinationals), and some made the point that the financial obligations of certain private entities (banks in particular) could easily be translated into government liabilities if the authorities rushed to their assistance in the event of a crisis. In addition, as some respondents mentioned, the suspension of payments by the sovereign will have severe repercussions for the market access by the private sector.

Most participants were of the view that the uncertainty surrounding the renegotiation process and the difficulty of attaining a resolution in the event of a liquidity crisis, serves as a disciplinary device for borrowers. Consequently, any arrangements that would make the resolution less painful might increase the price of capital because of moral hazard effects. A few of the participants conceded that reduced uncertainty might actually have some dampening effect on risk premia for emerging market debt.

Questions 7-9: The role of the ex ante provisions in present contracts: credit enhancements, clauses regarding default and renegotiation (negative pledge, arbitration etc.).

The respondents noted that the scope for increased use of collateralisation in sovereign debt contracts is quite limited. They attributed this phenomenon to two factors. The first has to do with the limited availability of collateralisable assets and the high legal costs that such provisions entail for both the borrower who pledges the asset and the lender who will take possession of it. An additional factor that further constrains its use is that collateral provisions in a contract are often interpreted as a sign of the borrower's lack of confidence in its ability to pay in full.

Unlike collateral provisions, negative pledge and pari passu clauses in sovereign debt contracts are common. Indeed, as some participants mentioned, even though sovereigns are in certain cases exempt from the requirement to include such clauses in the bond they issue, they usually waive their prerogative so as to avoid giving a bad signal to the market. However, a number of participants expressed some concern regarding the enforceability of such clauses.

The majority of the respondents noted that sovereign bond contracts generally do not allow for non-unanimous decisions by the bondholders to change the schedule of debt payments. A few European participants noted that some eurobond issues include provisions for a qualified bondholders' majority to agree to such a rescheduling. Even among those participants, however, there was some degree of uncertainty regarding the typical size of the majority required.

A large proportion of the interviewees seemed not to favour such clauses because, in their view, they represent serious infringements of their creditor rights. Another reason cited was the perceived moral hazard effects of such provisions on the borrowers, who may be more likely to suspend payments if the renegotiation process is less uncertain and drawn out. There were certain types of market participant who were only interested in trading emerging market debt as part of a global portfolio strategy. These portfolio investors were indifferent to such ex ante arrangements as they are not interested in holding these securities and they expected to sell them well before the issue of renegotiation became topical. Some participants noted that a successful renegotiation process required the equality of treatment of all creditors and the standardisation of the process itself.

Questions 10-12: Possible improvements in ex ante arrangements: collective representation of bondholders, majority action clauses, and a "model contract".

Market participants opposed any attempt to change the present structure of bond contracts. The general view among the respondents was that bonds represent a simple promise by the borrower to pay, and their attractiveness as an investment vehicle reflects their character as easily transferable, unencumbered and difficult-to-restructure securities. The respondents were particularly opposed to any innovations in bond contracts that might interfere with their ability to sell the securities they hold at any time they choose to do so.

In the market participants' view the essential difference between a loan and a bond is that the latter represents an arm's-length financial relationship between the borrower and the lender, and the respondents wanted this characteristic to be preserved. Bonds are perceived as representing an almost "sacred" (in the words of some interviewees) obligation by the borrower to pay and as such should be very difficult to restructure. The uncertainty and the costs associated with the renegotiation of bond provisions serve as a disciplinary mechanism for both parties that make defaults less likely. Attempts to incorporate in bond contracts ex ante provisions that might facilitate this workout process would alter the character of the security, and it was feared by many participants that would increase moral hazard on the part of the borrower and consequently reduce the security's attractiveness for the investor community.

Because of the perceived negative effects of such bond clauses on the borrower-lender incentive structure and the liquidity of the instruments, the respondents argued that investors would demand a higher premium as compensation for their inclusion in bond contracts. Some participants also expressed the fear that this might discourage certain types of investor from participating in the market altogether. Some interviewees were of the opinion that such clauses might well be resisted by the debtor countries themselves because of the higher cost of capital that they might entail. Such a reaction from the borrowers would effectively block their introduction.

With respect to the idea that contract formats could be proposed by the official community, the market participants did not feel that model contracts could be imposed upon the market and that such innovations could only be introduced if market players chose voluntarily to use them. Some respondents mentioned that assuring the sponsorship of the main trade associations would be instrumental in persuading the market to adopt them. Even if "model contracts" were to be used henceforth, the conversion of old bonds was considered not to be feasible as the costs would be prohibitive.

2. When a crisis emerges

This section deals with the events precipitated by the outbreak of a crisis: the potential of market overshooting, the externalities in the form of contagion effects on other debtors and the issue of systemic disturbance. Market participants were also asked to comment on the worth of suggested alternative methods for instituting a "sanctioned" standstill.

Questions 1-2: The factors influencing the behaviour of investors when a crisis emerges.

In the market participants' view, as expressed in their responses to questions 4-6 in the previous section, up-to-date quantitative information, which is necessary in order to perform cash-flow analysis of the debtor's external position, should be available at all times. In this sense, the respondents felt that there is no need for additional information of this type at the outbreak of a liquidity crisis. The secondary market price of the securities is the only other piece of quantitative information that investors require in order to make their assessment of the situation and plan their actions.

The market participants did, however, stress the important role that information of a more qualitative type plays in shaping investors' attitudes in the event of a crisis. This information concerns the nature of the response by the borrower's authorities to the situation at hand, and the plans of action, if any, of the official sector and the IFIs.

A very important factor that determines the behaviour of private investors in the event of a liquidity crisis is the credibility that the borrower's authorities enjoy in the market and the perceived willingness of these officials to be frank and cooperative. A number of interviewees cited examples from the past in which the local authorities' attitude was instrumental in either stopping a crisis from generalising or, on the contrary, worsened the impact of a crisis that was already developing. One sign of such a cooperative and frank attitude, in the judgement of many participants, is the early communication by the authorities to the investor community of adverse news regarding the country's economic and financial prospects.

With regard to the official sector's announcements during a crisis, the market participants favoured a clear statement of the nature and the extent of their intended response and the amount of any support that might be provided by the international financial community. They noted that such a statement would play a major role in reducing the unnecessary uncertainty that surrounds the resolution of a crisis, and that it should be issued at a very early stage. Some participants also mentioned that high-level channels of communication among officials of the major creditor countries and the IFIs with the key private creditors and intermediaries should be established before a crisis materialises.

It was the view of market participants that securities have to change hands in the event of a crisis. It is the normal and natural way for the market to reallocate risk to the participants who are better equipped and/or more willing to bear it. One factor that determines investors' decision to hold or to sell is the expected magnitude of the price decline. Another factor, which seems to be of greater importance to fund managers than to other types of actor, is the risk that liquidity might evaporate in certain segments of the market. Investors may sell liquid assets of less risky sectors to cover losses they sustain in the sectors that have been harder hit by the crisis. Institutional constraints may lead to sales of certain securities by certain types of investor when this paper's rating falls below some predetermined threshold. In general, fund managers seem to be the least likely among the investor community to hold on to their portfolio, and can be expected to sell at virtually any price.

Questions 3-6: The externalities associated with the market's reaction (overshooting, contagion, systemic problems).

Overshooting is something that market participants very often observed in the market, but it was their opinion that there is no scope for direct intervention by the official sector to reduce its impact without at the same time distorting the market's equilibrium. They tended to treat this phenomenon as the result of a quasi-natural behaviour of market players which helps the reallocation of risk. According to most respondents price overshooting is a reflection of reduced liquidity in the particular market, but it was not obvious how official action could counteract this tendency in a way that would enhance the performance of the market mechanism. It was conjectured by some participants that, as the market for emerging country debt matures, such phenomena will tend to be less and less pervasive. Another factor that in the opinion of some participants might help reduce market overreactions would be a frank and credible assessment of the situation by the official sector at a very early stage of the crisis.

The "contagion effect" of a crisis of one sovereign debtor on others was thought to be a very common occurrence by almost all the market participants interviewed. It was attributed by many either to demonstration effects arising from the reassessment of the value of the totality of emerging market paper in light of the information highlighted by the particular characteristics of the crisis in one country, or to technicalities of the portfolio management methods used by many investors or fund managers (rebalancing of the portfolio, closing-out of speculative positions, increased liquidity needs in view of expected withdrawals, etc.). Again, the market participants were of the opinion that direct official intervention to contain contagion would be of very limited effectiveness. In fact, some respondents suggested that official intervention might actually have the opposite result if it reduced the disciplinary effect of market pressures on the debtor country's economic policy, postponing the time when bold corrective economic measures are taken. Another danger pointed out by many market participants was that a workout procedure which made the liquidation of a position difficult could exacerbate these contagion effects as investors might try to get out of many markets at once, fearing that they will be locked in by other countries resorting to similar procedures.

In the event of a crisis, different types of participant react in different ways, depending on their institutional characteristics. In recent episodes retail investors tended to show confidence in their fund manager's ability to manage their investments and did not react with mass withdrawals from funds that specialise in emerging markets. In contrast, proprietary traders are more inclined to sell immediately and indiscriminately, disposing not only of the paper of the sovereign in distress but also that of all others thought to be in the same category - one respondent characterised this behaviour as "sell now and look for bargains later". The interviewees also gave conflicting responses with regard to the treatment of different classes of borrower within a country. Some said that the fate of the private borrowers could not be disentangled from that of the government, but a few said that they could be treated independently.

The risks to creditor country financial institutions arising from the recent Mexican crisis (had the official action not been what it was) were generally thought to have been relatively limited. However, some participants advanced the view that a few large institutions (not necessarily banks) did face severe difficulties because of their exposure in emerging country debt. Some participants noted in connection with this type of market externality, that official financial packages designed to protect "innocent bystanders" - i.e. countries which experience an adverse effect because of a liquidity crisis in another country - might help in containing contagion and systemic risks. A few participants mentioned that regulations aimed at curbing the practice of short-selling and highly leveraged position-taking by some market players might also contribute to the reduction of the risk of systemic disruption.

Questions 7-10: Standstills and stop-crisis measures, availability of fresh money.

Market participants contemplated the possibility of the institution of some form of a payments standstill with feelings that ranged from indifferent to very negative. There was strong, almost unanimous, opposition to the idea of a formalised standstill arrangement whereby the debtor was in some way legally excused from continuing debt repayment until negotiations produced a workout agreement. Such an arrangement was perceived as a major infringement of creditors' legal rights. The alternative proposal that a payments standstill could be "sanctioned" by the official community but this characterisation would have no legal standing met with somewhat less negative reactions from some of the market participants. These respondents were inclined to interpret such a declaration, accompanied by an IMF programme, as a signal that some steps were being taken by the debtor to correct the imbalances that brought about the crisis. Many other respondents, however, had serious reservations as to whether such a declaration would positively affect creditors' attitudes towards cooperating in a workout with the debtor. Some participants also expressed the concern that a standstill, in any form, might exacerbate the "rush for the exits" and contagion effects, as many investors would attempt to liquidate their holdings in order to avoid being "trapped" by a standstill.

The role of the IMF in a standstill arrangement was viewed with considerable suspicion because of the perception that it would favour debtor governments (and especially those with particular ties to major shareholders) over private sector creditors. They asserted that the Fund's preferred creditor status leads to a conflict of interest if the IMF is also in charge of announcing a standstill. Some general concern was also voiced by the interviewees regarding the ability of the IMF to enforce strict conditionality - a necessary complement to any standstill arrangement - if the same institution is also responsible for declaring the standstill. Since market participants saw very little scope for the voluntary provision of fresh private money to the troubled debtor as part of a workout after the crisis, some proposed that the most useful role for the Fund would be to provide liquidity finance to qualified debtors when this was judged beneficial to an orderly resolution of the crisis situation. In fact, the only cases where the idea of a standstill was not dismissed out of hand were those in which a "reasonable financial involvement" by the IMF was also contemplated.

Market participants did not seem to be too concerned about the consequences that legal action by the old creditors might have on the market's ability to extend fresh money after the crisis. A major impediment to the voluntary provision of new private finance to the troubled country seemed to be that market participants doubted the ability and/or willingness of the debtor to credibly accord them preferential treatment over old debts. The announcement of a standstill, whether "formal" or "informal", would not have a positive influence on participants' decisions to lend new money.

3. The resolution process

This section refers to issues related to the complications of the renegotiation of the original contract terms and the conclusion of a new agreement.

Questions 1-3: The experience with present renegotiation schemes (Paris and London Clubs).

Equitable treatment of all creditors and negotiating flexibility were viewed as the two fundamental characteristics of a successful resolution process. The role that the official community played in facilitating discussion and ensuring the circulation of information was generally viewed as positive in the negotiations that followed the debt crisis of the 1980s, although the process itself had tended to be rather long and drawn out. Some pointed out that the involvement of non-bank creditors in such negotiations might have a negative effect on the speed with which an agreement could be reached as these participants do not have established business relationships either with the debtors or with each other. It was suggested that these investors might be well advised to build structures similar to those that currently exist for the bankers. Not much was said regarding the Paris Club, process as the participants had no direct experience. Some participants mentioned, however, that the Paris Club principle of comparable treatment should not be viewed as implying strict equality.

Questions 4-6: Economic characteristics of the current workout process (multiplicity of creditors, free riders and institutional constraints).

There was a range of views among the interviewees regarding the severity and likely consequences of the problem posed by the diffused holding of securitised debt for the timely resolution of a liquidity crisis. Some thought that the holders of the paper would naturally and voluntarily step out and negotiate if this would be to their benefit, or just stay in the background and either hold or sell the paper. Some others asserted that the identity of the major holders was known (or could be discovered with relative ease) and that there were existing channels of communication among the investors that could be used in the event of a crisis. There was considerable resistance on the part of certain groups of participants, particularly fund managers, to becoming involved in the negotiation process. Some originators felt that the market might look to them as the natural candidates to coordinate the creditor community, but several of them expressed serious reservations as to whether they were adequately equipped to perform this task. The importance of registered securities was downplayed by all participants.

The existence of free riders was viewed as an unavoidable nuisance by most market participants. A few viewed free-riding as a feature of the 1980s crisis that would tend to be less of a problem in the era of securitised debt. Free riders can be most damaging when they form a blocking coalition that demands to be bought out before agreeing to any amendment to the terms of the original contract and especially to the provision of fresh money. But at the same time concern was expressed that any amendment to the present legal framework aimed at minimising the power of minority holders would provoke strong legal challenges and would raise the cost of funds to borrowers. Some participants mentioned that gentle arm-twisting by the IFIs and the respective national regulatory bodies could be helpful in persuading free riders to adopt a more collaborative strategy.

The respondents mentioned two examples of institutional constraints that might impede the ability of certain types of market player to participate in a workout process. The first was the case of rules, often self-imposed, that prevents institutional investors from holding securities rated below a certain minimum grade. The second was that open-ended mutual funds which face liquidity demands from their customers will need to maintain a liquid portfolio of assets and thus will be unwilling to hold on to bonds that are being renegotiated. There are no general official restrictions that forbid institutions to buy, hold and trade securities in default, other than higher capital regulatory requirements. However, certain types of loan require the consent of the borrower in order to be transferred when in default.

Questions 7-8: Bondholder associations.

The market participants were not sympathetic to the establishment of bondholder associations, but various groups gave different reasons to justify their position on this issue. Some were very sceptical that such associations would expedite the workout process because the diversity in the characteristics of the relationships between the debtor and different types of investor would tend to complicate the renegotiation process. Some viewed the establishment of such associations as an infringement of their right to sell the paper when a liquidity crisis occurred. In particular, fund managers were strongly opposed to the notion that they would have no option but to participate in a workout procedure since they do not consider this to be part of their business and do not have the management resources to devote to these procedures. They prefer to use their discretion and either sell and get out or "free ride" on the efforts of others and accept the negotiated workout agreement. Only some large market-makers felt that their extensive holdings carried an implication that they had some additional responsibility to maintain an orderly market (some drew parallels with the establishment of the Emerging Markets Trade Association (EMTA).

Most participants saw no scope (or possibility) for discriminating among different types of holder of debt instruments and mentioned that the evolving nature of the market and the particularities of each case made it very difficult to establish general procedures to deal with liquidity crises. Many stressed that local investors' flight had been instrumental in bringing about a liquidity crisis that more often than not was triggered by problems in rolling over short-term debt. It was in this connection that some suggested that it would be helpful if domestic investors as well as holders of short-term trade credit were represented in analogous forums.

Question 9: International bankruptcy court.

This idea was almost unanimously rejected by the market participants as not being feasible and maybe even counterproductive. They noted that, because of the vast differences in national legislation in this area, a very broad political consensus would be necessary for any such entity to come into existence. Even if legal judgements were legally binding, there was a general problem of enforceability in the case of sovereign debtors. They were also concerned that such a court might be inappropriately biased towards the debtors compared with present arrangements. A very small number of respondents noted, however, that such an innovation might bring some uncertainty-reducing "order" into the liquidity crisis situation, but they also did not think that it would be a feasible proposal.

Question 10 : Access to capital markets after the crisis.

There was a significant divergence of opinion among the participants in the survey regarding the time that it takes for a debtor in default to return to the markets, and the respondents generally avoided offering precise conjectures. Some said a generation, but others commented that the length of time that represents a generation in the market is getting shorter and shorter. The few speculative estimates offered ranged from ten years to no time at all. Several participants noted that the circumstances of default and the behaviour of the borrower before and after the crisis were crucial, but these factors were more likely to influence the behaviour of the institutional investors and banks with longer-term investment horizons than the shorter-horizon investors who now make up a significant share of the market. In any case, a borrower that defaults cannot expect to regain full access to the markets before all issues regarding the old debts have been completely resolved.

GROUP OF TEN

—

WORKING PARTY ON
THE RESOLUTION OF SOVEREIGN LIQUIDITY
CRISES

APPENDIX

SURVEY OF MARKET PARTICIPANTS
Questionnaire

Interviews with participants in the market for international debt are being undertaken to understand how they behave in the face of sovereign liquidity crises and to survey market views about how current procedures could or should be improved.

The questionnaire is broken down into three sections. The first section deals with the operation of the market prior to the occurrence of a crisis and the ex ante conditions shaping the unfolding of a crisis. The second considers what happens when a crisis occurs. The third looks at procedures for resolving the crisis. Both current practices and possible new procedures are considered in each of the three sections.

I. Pre-crisis conditions and market practices

This set of questions relates to ex ante arrangements and market practices which have a bearing on the likelihood of a crisis and on how it unfolds when it occurs.

1. How would you characterise your firm's involvement in the market for international debt? Do you usually trade on your own account or do you represent other market participants?
2. When you invest directly in the international debt market do you have a preference for holding bearer securities as opposed to registered securities?
3. What has been your firm's experience with emerging market debt default?
4. When making investment decisions, what methods do investors use to assess and manage the risk that a sovereign borrower may encounter debt-servicing difficulties? To what extent does the existence of uncertainty about how such difficulties will be resolved influence both investment and pricing decisions?
5. To what extent is there a connection between the investor's assessment of the attractiveness of investments in the country in general and the investor's assessment of the sovereign borrower itself? How helpful are the professional credit ratings in assessing country risk?
6. What information would be needed that is not at present available to improve investment decision making and risk management?
7. What is role of credit enhancements, the such as collateral and guarantees, in a typical credit contract to a sovereign borrower? Are these different between sovereign and non-sovereign debtors? Would increased use of these mechanisms be desirable? If yes, what are the reasons that they are not used more frequently?
8. What is the practice regarding negative pledge and other clauses that prevent the borrower from contracting future debt in more favourable terms? How often are they used and how effective are they?

9. What is the current practice with respect to ex-ante provisions dealing with the potential problem of re-negotiation of the original contract terms in cases of multiple lenders (e.g. arbitration, provisions for protection from legal recourse by creditors in certain well-defined circumstances, minimisation of the disruptive effect of hold-outs etc.)?

10. Would new clauses in debt contracts clearly stipulating procedures to be followed in the event of debt-service interruptions (e.g. providing for a qualified majority of bondholders to be able to approve a change in terms applying to the entire group of bondholders) be helpful?

11. Would it be constructive for the official community to encourage the formulation of a "model contract" that includes such new clauses? Would such an initiative make these provisions more easily acceptable?

12. Even if such contract innovations become standard, they would only apply to new debt agreements while the bulk of the existing debt would be under the old style contract. Is there a case for converting these "old" debts? If yes, how could this be accomplished?

II. When a crisis emerges

This section deals with the events precipitated by the outbreak of a crisis and the issues of potential market overshooting, and externalities in the form of contagion effects on other debtors and systemic disturbances. Market participants are also asked to comment on the worth of suggested alternative methods for instituting a "sanctioned" standstill.

1. What types information of are most crucial for the investor community at the time a crisis breaks? Could you identify any informational deficiencies which have been evident in recent crises?

2. What considerations go into an investor's decision to liquidate claims on a troubled sovereign debtor and other debtors in the country? In particular, is it just the natural reaction to a price change, or is it exacerbated by fears that market liquidity would dry up fast because of large scale retreat from market making and/or fear of imposition of exchange controls? What impact, if any, do legal and regulatory considerations have on the decision whether to liquidate claims or to participate in the re-negotiation with the debtor?

3. Do investors believe that the market value of claims on sovereign debtors always constitute an accurate measure of the troubled borrower's ability to pay back or does excessive pessimism unduly depress prices after the emergence of crisis? If the latter is the case, is this of concern?

4. It has been observed that sell-offs of emerging market debt obligations often occur in waves and that countries with seemingly very different profiles are all affected at the same time. How do market participants explain this phenomenon? Is this "contagion" something that could or should be mitigated?

5. In the event that a crisis occurs in one country, how do investors differentiate between different borrowers? Are differences in instruments important? If so which ones and why? Do retail and wholesale investors react differently?

6. In general, how do private market participants view the risks that the debt-servicing difficulties of a key sovereign borrower might have a severe, adverse impact on major creditors, and/or international financial markets? What could be done to lower such systemic implications?

7. Would international approval, for example, by the IMF, of a suspension of payments by a sovereign borrower under certain strict conditions, but with **no** legal standing, affect the private market's attitudes towards the debtor and the price of the claims? What conditionality should be attached to such an approval?

8. How would such a declaration influence the willingness of creditors to cooperate with the borrower in a workout type of setting and the readiness with which private investors would resume lending to the sovereign borrower?

9. Assuming for the moment that some mechanism existed for legally sanctioning temporary payments standstills for sovereign debtors that met certain conditions, how would investor behaviour change? How would debtor behaviour change? What would be the broader implications of having such a mechanism?

10. Under what terms and conditions would market participants extend fresh money to a sovereign debtor for a short period to enable it to carry out essential activities until the process of resolving the crisis could be initiated (if the crisis did not resolve itself)? What difference would it make if a standstill which enjoyed some form of official blessing was in place? What difference would it make if the debtor benefited from protection from certain legal action by existing creditors for the period of the standstill?

III. The resolution process

This group of issues relates to the complications of the renegotiation of the original contract terms and the conclusion of a new agreement.

1. What has been the experience with existing arbitration schemes and conciliation procedures (speed, equitable treatment of creditors, cost)? In what way has intervention by the official community proved helpful to a speedy settlement? In what way has it been an obstacle?
2. How do market participants view the London Club process, and what are the lessons of the London Club experience for the general question of workout arrangements? What arrangements would be suitable in the case of debt owed to non-bank creditors?
3. How do market participants view the Paris Club process, and what are the lessons from this experience for the general question of workout arrangements? In particular, in what way does the comparability of treatment emphasised by the Paris Club influence other creditors?
4. To what extent is the process of resolving a crisis complicated by the difficulty of knowing who are the other creditors in the same (implicit) seniority class, particularly when the claim is in bearer form and traded in the secondary market?
5. To what extent is there concern about free riders in the current arrangements? Do they present a serious obstacle to expedient voluntary workouts? If yes, then what could be done to contain their disruptive influence?
6. What limitations or rules (legal, supervisory or self-imposed) apply to the acquisition, holding and trading of debt which is in default or otherwise impaired?
7. To what extent would the formation of bondholder associations, to negotiate with troubled debtors on behalf of individual bondholders and to agree on restructuring as necessary, be helpful? Should these associations be formed on an ad hoc basis, or should they be standing committees? Would it be desirable to have many such associations each representing a more homogeneous class of claim holders? Would there be difficulties in defining the covered "bonds" with sufficient precision? What could or should the authorities do to facilitate the voluntary formation of such associations? Would such associations help speed up the negotiation process to a degree that could contain spillovers and other externalities?

8. If bondholder associations, along with the Paris and London Clubs, were in place, would there be concern about other types of assets not covered by these arrangements? Could the bondholder association model be used in the case of other debt instruments, such as those of shorter maturity and perhaps those held by domestic residents of the borrowing country as well as international investors?
9. Some have gone as far as to advocate an international bankruptcy court, empowered in some way to impose debt workout solutions, including debt re-structuring and perhaps debt forgiveness, on both debtors and creditors. What is the private sector's opinion of such an arrangement?
10. When a sovereign borrower interrupts debt servicing, what are the consequences for the borrower's access to capital markets, and over what period of time? Do different classes of creditors and potential creditors respond differently? To what extent do the circumstances under which the borrower was forced to interrupt debt servicing affect the market consequences of the action?

GROUP OF TEN

—

WORKING PARTY ON
THE RESOLUTION OF SOVEREIGN LIQUIDITY CRISES

REPORT ON EXISTING FORMS OF COLLECTIVE REPRESENTATION APPLICABLE TO DEBT INSTRUMENTS

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EXISTING FORMS OF COLLECTIVE REPRESENTATION APPLICABLE TO DEBT INSTRUMENTS

SCOPE AND STRUCTURE OF THE REPORT

This report summarises general views on the law and practice relating to collective representation of holders of debt instruments or claims generally (in particular, indebtedness taking the form of securities) in Group of Ten countries, as those views were expressed by national authorities in reports prepared for the Working Party.[1]

Part I of this report provides an overview of certain aspects of the rules or practices relating to collective representation of debt holders as described by national authorities, highlights certain potential weaknesses of existing arrangements as far as helping to control sovereign liquidity crises and suggests some potential improvements to those existing arrangements. Part II summarises selected aspects of the various national reports, with particular emphasis on collective representation as it is used in international debt offerings.

Even though the national reports were prepared from materials believed to be accurate, this report in no way purports to be an exhaustive or authoritative discussion of the relevant law or practice. No representation is made concerning the accuracy or completeness of any statement contained in this report. This report is in no way to be viewed as an official interpretation or as a restatement of law or practice relating to collective representation.

PART I. GENERAL FINDINGS

1. Purpose and sources of existing forms of collective representation

There is no clear definition of what a collective representative is or does: according to national reports, the term "collective representation" can be understood to refer to various sorts of "representatives", of either the debt holders or the debt issuer, although most of the representatives described were permanent, as opposed to *ad hoc*, representatives. The forms of collective representation described in national reports can, however, be classified, notably according to their (a) purpose or (b) source, as described below.

[1] This report has been drafted with the support of the BIS Legal Service.

a) Purpose of existing forms of collective representation

The purposes for which existing forms of collective representation are used can differ considerably, ranging from: a representative of the debt issuer, such as a fiscal agent, which is appointed to fulfil limited, administrative, debt-servicing functions on behalf of the debt issuer;[2] to a trustee which represents debt holders and can, in certain circumstances, sue on behalf of the debt holders;[3] to a representative appointed by a debt holders' assembly in response to a crisis, with exceptional powers to represent the debt holders for the duration of the crisis. In addition, in bankruptcy situations, a debt holders' representative will often be granted, by operation of domestic statute law, exceptional powers to take action binding on all debt holders.

The purpose for which any collective representation is used can, to a large extent, be chosen by the market participants, even though particular tasks sometimes are required by statute to be accomplished by particular forms of collective representative. Thus, although some statutorily required representatives, such as certain trustees in the US, may have an obligation to provide information to debt holders, other functions or powers of the trustees can largely be determined by market participants.

In general, however, it appears that any permanent collective "representative", whether appointed by the debt holders or otherwise, may be in a privileged position to facilitate communication between debt holders and debt issuers in the event of a crisis, notably by securing a channel for information between the debt issuers and the debt holders.

b) Sources of existing forms of collective representation

The forms of collective representation described in national reports broadly fit into three categories according to their source, as follows:

(i) Statutory forms of permanent collective representation;

(ii) Optional use of statutory forms of permanent collective representation; and

(iii) Contractual forms of collective representation.

The main features of these three categories are as follows:

(i) Statutory forms of permanent collective representation

Certain legal systems require, by statute, the use of particular forms of permanent collective representation in connection with particular types of domestic debt offerings. This includes, among others, trustees when required under the US Trust Indenture Act, 1939 ("**TIA**"), as well as the "*masse des créanciers*" under French law, "*kanri gaisha*" under Japanese law, the "*communauté des créanciers*" under Swiss law and bond holders' assemblies under German law.

[2] See, in particular, Part II, sections 10b) and 11b) below. Although fiscal agents under US or English law do not represent debt holders, fiscal agency agreements often contain administrative provisions which could facilitate collective action and decision making.

[3] See, in particular, Part II, sections 10a) and 11a) below.

Although the details relating to these forms of collective representation are specific to the legislation of particular countries, some general features are common to a number of legal systems. Thus, appointments, by statute law, of collective representatives typically are permanent appointments which last for the entire duration of the debt instrument. One of the main statutory purposes or functions of these representatives generally appears to be to make information available to the debt holders, although some may also actively represent the debt holders with respect to the debt issuer.

In most cases, the parties involved in debt offerings for which a statutory form of collective representation is required can, at least at the time of the debt offering, adapt to their specific needs certain aspects of the powers or duties of the collective representative they are required to use. One general limit on a statutory representative's powers is that it is rarely, if ever, entitled to waive the rights of the debt holders to receive timely payment of the full amount due under the debt instrument.

There are also limits as to the scope of application of a statute and therefore as to when statutory forms of collective representation are required: in particular, statutes do not apply beyond the jurisdiction for which they were enacted and many do not apply to debt instruments issued by sovereign debtors. In fact, many statutory forms of collective representation only apply to debt offerings by private issuers domiciled within the country for which they were enacted and therefore are not generally applicable in connection with international debt offerings.

(ii) Optional use of statutory forms of permanent collective representation

Even though not required by statute, many, if not all, of the forms of permanent collective representation which are sometimes required by statute are also used, by choice, by the parties involved in debt offerings, with the powers and duties of the representative adapted, by agreement, to suit the parties' needs.[4]

In order to be valid under German consumer-protection legislation, any contractual provision restricting or limiting debt holders' rights would probably have to comply with the basic provisions of fairness and justice contained in the German Debenture Act, 1899, which sets out the mandatory provisions on collective representation applicable to debt instruments issued in Germany by certain German domiciled debt issuers.[5]

(iii) Purely contractual forms of collective representation

Financial market participants also choose to use certain forms of collective representation which do not resemble any statutory form and might be either:

(a) Permanent representatives provided for in the debt instrument and to last for the entire duration of the debt instrument, such as collective representatives for debt issued, guaranteed or otherwise available in the UK, where there is no statutory form of collective representation. This

[4] It is not the practice in Germany to make optional use of statutory provisions, although there is nothing to prevent market participants from doing so.

[5] This German legislation will shortly be supplemented by the entry into effect of an EU Directive on unfair terms in consumer contracts.

category also includes fiscal agents used under US law in connection with Eurobonds and Brady bonds.[6] Or,

(b) *Ad hoc* collective representatives which are set up and used only to respond to a crisis, whether or not provision is made for the *ad hoc* representation in the underlying debt instrument. These *ad hoc* representatives, which often have exceptional powers, may be necessary to supplement permanent representatives in the event of a crisis. Thus, for instance, under English law, bond holders' meetings will frequently appoint a "representative" with the extended powers which are needed to respond to a crisis, even though the bond documentation provides for a trustee with certain, limited, powers to act for the bond holders over the entire duration of the bond.

In addition, *ad hoc* groupings of debt holders often arise as and when problems occur with the performance of obligations in connection with a debt instrument. Many of these groupings do not have a formal legal structure and do not provide much more than an *ad hoc* forum for negotiation and a conduit for information. Nevertheless, during the debt crises of the 1980s, groupings such as so-called Bank Advisory Committees ("**BACs**"), which advised the debtor, played a leading role in re-negotiations of sovereign debt: members of the BACs (normally, major bank creditors) would assist the sovereign debtor in putting together a restructuring proposal and, typically, they would then endorse the proposal before it was sent to all of the creditors.[7]

2. Flexibility of current arrangements

The national reports indicate that there is considerable flexibility in the collective representation arrangements used in connection with international debt offerings. Many of the statutes described in the national reports do not apply to foreign domiciled debt issuers, or to any sovereign debt issuer. Furthermore, market participants can often select the governing law for an international debt offering and therefore can opt for a legal system which allows them to adapt the form and powers (and therefore purpose) of any collective representative used in debt offerings, provided all applicable mandatory provisions of statute law and "*ordre public*" are respected.[8] The use of collective representation in international debt offerings is therefore largely market driven and the applicable rules result principally from the contractual arrangements agreed among the debt issuer and the initial debt holders (or trustee or agent, as applicable).

The flexibility which allows market participants (i.e. issuers and the financial institutions arranging the issues) to choose how, if at all, to use collective representatives in connection with

[6] Agents, whether fiscal agents under US law or facility agents under English law, provide essentially administrative debt-servicing services to the issuer; they do not "represent" the debt holders, but act on behalf of the debt issuer.

[7] Although BACs purported to be representative of the broader creditor community, they were not, from a legal point of view, "representatives" of it.

[8] Although market participants have considerable flexibility to determine whether to provide for any form of collective representation and, if so, to adapt it to suit their specific needs, the proposed EU Directive on unfair terms in consumer contracts may affect the market participants' freedom of contract in this regard.

international debt offerings, however, also allows market participants to circumvent, to a certain extent, statutory provisions which are felt to be inappropriate or too oppressive or cumbersome: market participants can notably select a governing law which will not prevent them from doing what they would like to do.

In practice, most international debt offerings, particularly Eurobonds and Brady bonds, as well as various other forms of sovereign debt issues, are subject to either English or US law, both of which afford participants considerable freedom of contract.[9] In debt instruments governed by English or US law, the two most prevalent forms of collective "representation" are trustee and agent.[10] The choice, according to the US national report, between using a trustee or an agent (for bond issuances governed by US law and exempted from the TIA) is largely driven by convenience, cost and various marketing factors, but may also depend upon the type of debt instrument, such that, for instance, it might be more appropriate to use a trustee, which can hold and deal with collateral, in the case of collateralised bonds.[11]

3. Potential weaknesses affecting how current collective representation practices might help control a sovereign liquidity crisis

The national reports suggest that there are certain potential weaknesses in how current arrangements for collective representation may contribute to controlling a sovereign liquidity crisis, including as follows:

a) Even where some form of permanent, debt holder, collective representation is provided for in debt instrument documentation, the representatives appointed are rarely, if ever, accorded the powers needed to cope with a supervening crisis.

b) For most securitised debt, there is no established forum (similar to the London or Paris Clubs) for discussion, co-ordinated action and decision making by debt holders in the event of a liquidity crisis of the issuer.

c) Ad hoc representatives with exceptional powers are frequently appointed under contractual arrangements among debt holders when a crisis develops, even though some form of permanent collective "representation" is provided for in the debt instrument documentation. Before any *ad hoc* "representative" can operate effectively, however, time needs to be spent determining essentially procedural matters, such as how that "representative" is to be appointed and how it is to function.

[9] New York governing law is specified for the majority of debt issues arranged or lead-managed by US commercial and investment banks and is often chosen for offerings aimed primarily at the US market (particularly in US public debt offerings, where New York law is invariably selected).

[10] See Part II, sections 10 and 11.

[11] Brady bonds have both a fiscal agent and a collateral agent, which is not a trustee.

4. Potential generalisation of certain existing collective representation practices

It appears from the national reports that certain existing collective debt holder representation arrangements could facilitate the resolution of a sovereign liquidity crisis. Market participants might therefore consider developing and generalising the use of certain existing practices which apply to collective debt holder representation in the event of a crisis, particularly in connection with debt instruments lacking arrangements for collective representation or where arrangements for collective representation do not foster rapid and efficient workouts.

A possible focus for developing existing practices might be to provide the procedural framework necessary, for example, for:

(i) Constituting promptly an assembly[12] of all holders of a particular debt instrument when a crisis arises or, if appropriate, before a crisis develops (the "trigger" would need to be carefully defined);

(ii) The designation by the assembly of debt holders of one or more collective representatives, of the debt holders, to respond to a crisis; and

(iii) Forming, through the assembly, a forum for discussion and decision making among debt holders and, if appropriate, among debt holders and debt issuers.

Market participants could effectively research what existing market practices could be developed and harmonised, perhaps in co-ordination with the admission boards of stock exchanges and the organisations which approve debt-offering documentation: these bodies could encourage the generalised use of certain practices by the market. This process may ultimately lead to developing a set of uniform international standards on collective debt holder representation.

[12] In certain jurisdictions, e.g. the US, it may not be appropriate to form an "assembly" of debt holders, but effective arrangements for these purposes may perhaps be achieved otherwise.

PART II. SUMMARIES OF COLLECTIVE REPRESENTATION AS DESCRIBED IN NATIONAL REPORTS

The following sections summarise the features of the forms of collective representation described in the national reports which are most relevant to international debt offerings.

1. Belgium

Belgian statute law does not contain specific provisions regulating collective representation of holders of debt instruments issued on an international level.

The Commercial Companies Law, however, contains provisions relating to the organisation and functioning of a "General Assembly of Bond Holders" ("*assemblée génerale des créanciers obligataires*") for bonds issued by companies established under Belgian law. Under certain conditions, a qualified majority of this Assembly has the right, for example, to agree with the bond issuer to a reduction of the interest rate or to a postponement of interest payments. The Assembly can appoint a representative for executing its decisions.

2. Canada

Trustees are typically appointed, under the terms of a trust indenture, to represent bond holders with respect to the bond issuer in large corporate bond issues. Trustees represent the holders of the debt instruments in respect of which the trust indenture was created and perform obligations defined in the trust indenture according to the general law applicable to trustees. Unless otherwise specified in the trust indenture, the trustee owes duties to the debt holders, who are the beneficiaries of the trust.

3. France

The French Companies Act[13] requires the formation of a grouping or "*masse des obligataires*" of the holders of every bond from the same bond issuance, whether public or private, by commercial companies, if governed by French law.[14] The same "*masse*" may be used to represent the bond holders in successive debt issues, if this is provided for in the debt instruments for each issue and all debt instruments provide that all bond holders enjoy the same rights.

Although French law does not require certain public sector issuers to use a "*masse*" in connection with their debt instruments, public sector issuers frequently chose to do so, particularly

[13] Law number 66/537 dated July 24, 1966 *sur les sociétés commerciales*, articles 293 through 339.

[14] As collective representation is mandatory for all commercial companies issuing bonds, whether publicly or privately, the rating of the issuer has no influence upon the form of collective representation to be used.

public entities in respect of domestic French issues.[15] Similarly foreign issued debt, including foreign issued Euro-currency debt sold in France, is not subject to the statutory requirement for there to be a "*masse*". However, these debt instruments often provide for a "*masse*" to be constituted, even though this is purely optional.[16]

Upon issuance of the relevant debt instrument, the creditors form, by law, a "*masse des obligataires*", which is in itself a legal entity with legal personality which only ceases to exist upon full satisfaction of the bond holders' rights under the debt instrument.[17] This group, or "*masse*", of creditors has two organs: a general assembly made up of all the debt holders of the relevant bond issuances; and a committee of between one and three "*représentants*" or representatives elected by the general assembly. The chairman of the general assembly is automatically one of the representatives. If the bond issue is floated in a public offering ("*appel public à l'épargne*"), the representative(s) of the general assembly of debt holders is/are sometimes designated in the bond issue documentation. The appointment or designation of the representatives is published in a legal notice which appears, for instance, in the BALO.

The representatives of the debt holders may either be individuals or other legal entities. They must be domiciled, or at least registered, in French territory. There is no statutory requirement for the representatives to be bond holders.[18] However, the issuer and persons with managerial responsibilities within the issuer, or in companies with an interest in the capital or in the management of the issuer and persons who are banned from exercising banking activities or from taking on managerial responsibilities, cannot be appointed as a representative.

The "*masse*" and its organs represent solely and exclusively the interests of the bond holders: once the "*masse*" exists, the bond holders have no individual right to supervise the issuers' operations and management and cannot individually request communication of the issuer's accounts and documentation. This supervision and communication of these items to the bond holders is solely the responsibility of the representatives, and debt holders are only entitled to request documentation from the representatives.[19]

The general assembly of bond holders will deliberate on every proposed measure involved in the representation of the bond holders and related to the execution of the debt contract, including any proposed modification in connection with the debt instrument and proposals on the following issues:[20]

[15] French debt issued with a public guarantee by State or local authorities, or by public enterprises ("*établissements publics*") does not need to have a "*masse*".

[16] The existence of a "*masse*" can facilitate an issuers' discussions with bond holders, including on amendments to the terms of the debt instruments.

[17] Article 293, Companies Act.

[18] One of the representatives, who need not be bond holders, is the president of the general assembly.

[19] The bond holders can take no individual action other than in connection with the exercise of their voting rights. See Article 319, Companies Act.

[20] Article 313, Companies Act.

(a) the modification of the memorandum of association of the issuer such as will affect the object or form of the issuer;

(b) to settle any dispute or litigation;

(c) to merge or to break up the issuer;

(d) relating to a new issue of bonds benefiting from a guarantee or security making that new issue rank above the rights of the bond holders already in the "*masse*";

(e) relating to any waiver or amendment of the guarantees or securities granted to the bond holders;

(f) relating to the extension of the due date of interest instalments or modifications of the redemption terms or the interest rate.

There are important limits on the powers of the general assembly, including that it cannot increase the debt holders' expenses or treat debt holders of the same "*masse*" unequally. The Companies Act contains a number of provisions relating to meetings of the general assembly, including quorum requirements.[21]

The representatives of the general assembly are empowered to do anything necessary for the administration of the "*masse*" and in the common interests of the bond holders. The general assembly can restrict certain of the powers granted to the representatives by statute. The representatives can, if expressly authorised by the general assembly, commence legal proceedings on behalf of the bond holders. The representatives can supervise the issuer, but may not intervene in its management (the representatives will receive the same information as the shareholders of the issuer and can attend general assemblies of the issuer, although they have no right to vote).

Furthermore, the representatives are responsible for supervising any guarantees and securities connected to the debt instrument and for taking any necessary action in this regard. They can receive all guarantees and securities which are regularly attached to the debt instrument after its issue. They can waive partially, or in full, security clauses, when authorised to do so by the general assembly, or when the debt instrument is reimbursed.

The representatives are potentially liable to the general assembly of bond holders in the same way as agents in accordance with the agency provisions of the French Civil Code. The functions of the representatives therefore end in the same way as for any agent. However, the general assembly has the power to terminate the functions of the representatives. If a representative resigns, it will be liable for any harm caused to bond holders by its resignation. Pending replacement by a new representative, no-one can act in its stead. However, pending the designation of a new representative, or in an emergency, any person who has a valid interest can request the president of the appropriate court of first instance to designate a representative on an emergency basis.

[21] On first convening, the bond holders present or represented must have title representing at least one quarter of the voting rights; on the second convening of the assembly there is no quorum. Each bond gives the right to at least one vote and each bond holder has voting rights proportional to the value of the loan its bonds amount to. The general assembly's resolutions are adopted by a majority of the votes present or represented.

4. Germany

Under German law, a special act provides for an assembly of the holders of certain domestic bonds having the same rights. The assembly has to be convened at the bond holders' request (when holders of at least 5% of the nominal bond capital demand such convening) and the assembly may, if the need arises, be represented by one or more representatives. These statutory provisions apply to all domestic issues with two exceptions: issues below a specific threshold in terms of amount and denomination are exempt from the act, as are issues by sovereign borrowers (such as federal authorities, Länder governments and municipalities). However, the act may be made applicable to municipal authorities through Länder legislation. Moreover, similar rules may be implemented by contract for domestic issues not covered by statutory law and for foreign issues of private or sovereign entities.

Where required by statute, the collective representation is governed by the German Debenture Act of 1899 ("**Debenture Act**").[22] In contrast, where collective representation is optional, the relevant source of any obligation will be the terms and conditions of the bonds issued.[23] Provided that any such contractual provisions complied with the basic requirements of fairness and justice (as is the case with the provisions of the Debenture Act), they would be valid under the German Standard Contracts Act (AGB-Gesetz), which protects consumers.

Where the Debenture Act applies, representatives are elected by the general assembly of bond holders, subject to respecting certain statutory criteria relating to their eligibility, including that they must not be members of the issuer's or his creditors' executive or supervisory boards or creditors of the issuer or otherwise able to exercise significant influence upon the issuer. The representative acts as the bond holders' agent and has to safeguard the bond holders' interests. In principle, a representative elected or appointed pursuant to the terms of the bond would be subject to the same rules; however, other contractual arrangements might apply instead, e.g. endowing the representative with the powers of a "trustee".

The Debenture Act contains detailed provisions specifying certain extraordinary powers and functions which can be attributed to a representative, by a qualified majority vote of the general assembly of bond holders, in the following areas: enforcing the bond holders' rights against the issuer and thus preventing individual bond holders from commencing litigation, negotiating on and agreeing to defer principal or interest payments or even to waive interest payments. However, the representative cannot be authorised to waive the bond holders' rights to receive principal, unless formal insolvency proceedings have been opened. Furthermore, the representative is obliged to treat bond holders equally.

[22] Gesetz über die gemeinsamen Rechte der Besitzer von Schuldverschreibungen dated December 4, 1899, as amended by the Registrierverfahrensbeschleunigungsgesetz dated December 20, 1993.

[23] For collective representation to be available, the terms and conditions of a bond issued by a foreign sovereign issuer would either have to refer explicitly to the Debenture Act or include particular provisions for bond holders' collective representation.

Contractual representation clauses can, by concentrating powers with the general assembly of bond holders, generally limit what a representative is entitled to do. Similarly, where the Debenture Act applies, the general assembly might further limit the representatives' powers by requiring the representative to consult, or obtain approval from, the general assembly before taking any action.

Under the Debenture Act, the representative may be removed by the assembly at any time by a qualified majority vote, but otherwise its functions will cease upon the completion of its duties.

5. Italy

By Articles 2415/2418 of the Civil Code there is collective representation of the holders of corporate debentures issued by joint stock companies, including public and state sector companies, but excluding banks. The collective representation involves a permanent assembly of the debt holders and a representative elected by the debt holders.

The assembly of the debt holders, as well as designating the representative, adopts resolutions on: a) changes to the terms of the loan; b) motions for administration under supervision and for composition; c) establishment of a fund for the expenses necessary for the protection of common interests and related statements of account; d) other issues of common interest to bond holders, e.g. plans to merge the issuer with another company. Validly determined resolutions of the assembly are binding, even upon absent or dissenting bond holders. However, the power of the assembly of bond holders to introduce substantial changes to the terms of the debt issue is not always recognised in legal doctrine. It is generally thought that any total or partial waiver of the principal of a debt must receive the consent of all individual creditors, and that therefore a majority decision in this regard by the assembly is not binding on all bond holders.

The representative does not need to be a debt holder. If he is not elected by the assembly, he is appointed by the president of the tribunal with jurisdiction upon request by one or more bond holders or of the directors of the company. He remains in office for a period of up to three years and can be re-elected. The representative implements the decisions of the assembly, protects the common interests of bond holders in relation to the company and attends the drawing of lots for the repayment of bonds (certain issues in Italy involve bonds which are redeemed on a lottery basis). He is entitled to attend meetings of the shareholders. He also represents the bond holders in bankruptcy proceedings; however, the assembly has to vote on any proposal of composition or administration under supervision; such resolutions are binding for all holders of bonds. Legal doctrine tends to regard the representative as an agent of the debt holders, who is therefore subject to the Civil Code provisions regarding agency.

There are no limits on what individual debt holders can do pending designation of the representative. Debt holders can initiate individual actions even after the designation, provided that such actions do not contradict resolutions validly adopted by the bond holders' assembly.

6. Japan[24]

The two forms of collective bond holder representation most used in Japanese law are "kanri gaisha" (bond management companies or commissioned companies) and bond holders' meetings, both of which are explicitly provided for in the Japanese Commercial Code.

The collective representation provisions of the Japanese Commercial Code automatically apply to all bonds issued in Japan by Japanese "corporate" type entities. In contrast, these provisions do not automatically apply when non-Japanese sovereigns, quasi governmental and corporate type entities issue yen-denominated bonds (so-called "Samurai bonds") or other bonds in Japan. However, most foreign issuers of bonds in Japan provide for kanri gaisha and bond holders' meetings by making specific reference, in the transaction documents, to the relevant provisions of the Japanese Commercial Code.[25]

Where a foreign issuer provides for kanri gaisha and bond holders' meetings in debt offerings under Japanese law, two situations need to be distinguished: when a corporate-type foreign issuer chooses Japanese law as the governing law, it is generally believed that the statutory provisions of the Japanese Commercial Code on kanri gaisha and bond holders' meeting apply. However, where foreign sovereigns and non-corporate governmental entities choose to provide for kanri gaisha and bond holders' meetings, the issuers would not generally be bound by, or subject to, all of the provisions of the Commercial Code regarding kanri gaisha and bond holders' meetings. Instead, in this latter situation, the arrangements for the kanri gaisha and bond holders' meetings are purely contractual and accordingly the kanri gaisha's powers with respect to the bonds may differ from those of a kanri gaisha appointed pursuant to the Japanese Commercial Code, or by a foreign "corporate" issuer.[26]

As a matter of practice, both domestic and international bond issuers tend to utilise kanri gaisha and bond holders' meetings as the forms of collective representation for holders of bonds issued in Japan. Even though foreign issuers are not, as a matter of law, obliged to appoint kanri gaisha, one reason why they might choose to do so is that it enhances the marketability of the bonds in Japan since the bonds will provide similar mechanisms to those applied, by law, to domestic Japanese bonds.[27]

[24] This summary is entirely based upon the analysis and views of the Bank of Japan and does not necessarily represent the views of the Japanese Government.

[25] Foreign issuers frequently select Japanese law as the governing law for issues in Japan.

[26] Where a "Samurai bond" issue in Japan is governed by a law other than Japanese law, the prevailing view is that the specific provisions of the Commercial Code concerning kanri gaisha and bond holders meetings would not generally apply. Therefore the foreign issuer would be free to provide for any type of collective bond holder representation mechanism, provided that the mechanism was not contrary to Japanese public policy (e.g., if the law chosen by the foreign issuer for the bond agreement did not provide for any type of protection of the bond holders, it might be deemed to be contrary to Japanese public policy and, consequently, Japanese courts might not consider themselves to be bound by the provisions of the relevant bond agreements).

[27] Foreign issuers may thus appoint kanri gaisha to receive payments under the bonds, preserve the rights of the bond holders and to handle certain administrative duties in relation to the bonds.

Statutory kanri gaisha are standing representatives (banks, trust companies or companies specifically licensed by the MOF) appointed by the issuer at the time of the initial invitation for subscription of the bonds. Where the Japanese Commercial Code does not apply, contractual arrangements for the appointment of the kanri gaisha tend to follow the statutory scheme.

A statutory kanri gaisha has duties and powers which it can exercise directly, without obtaining prior approval from the bond holders' meeting or a court, as well as powers which it can only exercise if authorised by the bond holders' meeting and by a court and also any additional powers accorded by contract which are not inconsistent with its statutory powers. The powers and duties of a kanri gaisha appointed by contract will be set out in the bond documentation and are usually the same as the powers described in the Japanese Commercial Code for statutory kanri gaisha. Many acts can be performed directly by the kanri gaisha, although declaring an event of default, accelerating bonds and acting on any matters "material to the interest of the bond holders" are deemed to be beyond the kanri gaisha's discretion and therefore need the prior approval of the bond holders.

As a general rule, the existence of a kanri gaisha theoretically does not affect individual bond holders' rights: an individual bondholder is entitled to take any action at any time in respect of its own bonds, including commencing litigation against the issuer to recover the payment of principal or interest in the event of a default. However, if a kanri gaisha sues the issuer for payment of the bonds in respect of which it has been appointed, an individual bond holder would probably be precluded from suing the issuer concurrently to obtain payments in respect of its own bonds. Furthermore, if the issuer pays or compromises a claim by an individual bond holder in a way which is "markedly unfair", the kanri gaisha has a statutory power to seek to avoid the payment or action.

Although a kanri gaisha cannot, in principle, generally restrict bond holders' rights, a majority at a bond holders' meeting can pass a resolution which, if approved by a court as required by the Japanese Commercial Code, will bind all bond holders, even those who voted against it. (The Japanese Commercial Code does not apply to Samurai bonds issued by foreign States and therefore it is generally believed that court approval is unnecessary for bond holder resolutions in respect of them.) By obtaining a resolution from a bond holders' meeting authorising it, for instance, to approve a standstill, a kanri gaisha can be involved in restricting bond holders' rights. This said, strict procedural rules apply for convening bond holders' meetings and obtaining court approval, both of which could take time.

7. The Netherlands

The Dutch practice with regard to the collective representation of institutional creditors in large syndicated financial transactions is based upon the UK market practice of using an agent.[28] Accordingly, by one of the transaction documents, the lenders will generally appoint an agent who will act on their behalf as their exclusive representative. In the case of publicly placed bonds, it was customary to appoint a trustee, but this is no longer the practice.

Whether a trustee or agent is used as a representative,[29] it is usually designated in the transaction documents, which will typically also set out the powers of the representative, as well as the duration of its function. Transaction documents normally specify that the representative must consult the debt holders it represents on any "important" issue. However, in "emergencies", a representative may act to bind the debt holders, even if provisions in the transaction documents require consultation of the debt holders.

Transaction documents also usually restrict when debt holders can take individual action, although in an "emergency" situation an individual debt holder could conceivably act in the place and on behalf of the representative, thereby binding itself, the representative and also the other debt holders.[30]

A representative from a foreign country will be recognised in the Netherlands, provided that its appointment and powers conform with the law governing its appointment and do not contravene "*ordre public*" in the Netherlands.

8. Sweden

Swedish law does not contain any specific provisions on collective representation applicable to debt instruments. The Swedish market practice in this regard is, however, for companies, mortgage institutions or local authorities issuing debt instruments (including all kinds of long term loans traded on regulated markets, as well as commercial paper) sometimes to include, in the transaction documents, provisions for the collective representation of the debt holders. The collective representation used in Sweden is therefore contractual. Swedish issuers using the Euromarkets generally provide for English law to apply to the debt instrument.

Generally, debt instruments will provide that the banks or investment firms acting as dealers of the debt will act as the representatives of the holders of that debt in accordance with the

[28] Since July 1, 1994, it has been possible to take collective action under Article 305 a of Book 3 of the Netherlands Civil Code. For recent case law on this Article, see, for instance, Supreme Court, September 2, 1994, NJ 1995 no. 369 and December 2, 1994, RvdW 1994 no. 263 (ABN AMRO Bank v. Association of Holders Coopag).

[29] An agent (which is normally part of the leader of a syndicate of debt holders) will generally act on behalf of the debt holders in all circumstances. A trustee will normally only act in case of payment default or failure to provide security when required by contract.

[30] Under the "Zaakwaarneming" concept of Netherlands law, a person can validly bind a third party, in an emergency, even without the knowledge of that third party.

powers and duties specified in the transaction documents. These powers may include agreeing with the debt issuer to a standstill or, in certain circumstances, agreeing to amendments of terms and conditions of the debt instrument, except in respect of the repayment of principal and the payment of interest. The representatives act for the debt holders, but do not owe them any fiduciary duty.

9. Switzerland

The Swiss Code of Obligations contains, in articles 1157 *et seq.*, detailed provisions relating to collective representation in connection with debt instruments governed by Swiss law. Two main situations must be distinguished in connection with whether and, if so, how these articles of the Swiss Code of Obligations apply: the articles apply, by law, in connection with any public offering of bonds by an issuer who has its domicile or a business establishment in Switzerland.[31]

In contrast, for private offerings of debt instruments or public offerings by issuers not domiciled in Switzerland, some, or all, of the provisions of these articles may apply, in whole or in part, by agreement among the issuer and the creditors. In practice, however, this rarely occurs. Where a debt instrument is not, by law, subject to the provisions of the Swiss Code of Obligations, the rules governing the form of collective representation are therefore essentially contractual and market driven.

Upon issuance of a debt instrument which is subject to the provisions of the Swiss Code of Obligations, the holders of each specific issue of debt instruments constitute a "*communauté des créanciers*", or group, which can have one or more representatives, although it is unusual to designate several representatives. The representatives may be designated by the issuer in the debt instrument documentation (and therefore accepted by the debt holders when they subscribe the debt instruments), or elected by the general assembly of the group of debt holders at any time after the debt has been subscribed.[32]

Where the representative is designated in the debt instrument documentation, it may, in the absence of stipulations to the contrary, represent both the debt holders and the issuer. According to prevailing legal theory, this does not mean that the representative has to safeguard the interests of both the issuer and the debt holders; it merely means that the representative cannot be unilaterally dismissed by the general assembly of debt holders and that its powers cannot be changed without the consent of the issuer.

The market practice for issuers domiciled outside Switzerland (who are not subject, by law, to the collective representation provisions of the Swiss Code of Obligations) is for the lead-managing bank to be designated as the creditors' representative in the debt instrument documentation.

[31] The place of issue of a debt instrument is not considered to be relevant to the application of these provisions of the Swiss Code of Obligations.

[32] A court can also, in certain circumstances, appoint a representative, where necessary.

Subject to respecting Swiss applicable legislation which may not be modified by contract, *ordre public*, *bonae mores*, or basic personal rights,[33] the powers accorded to the representative may vary for different debt issues. As stated above, where there is a foreign domiciled issuer, the lead-managing bank usually acts as the creditors' representative and its rights and obligations to both the issuer and the debt holders are as set out in the debt instrument documentation. In practice, the representative usually has considerable discretionary powers to exercise on behalf of the debt holders, including certain special powers not available to a creditors' representative appointed by law. The special powers typically granted to a creditors' representative where the Swiss Code of Obligations does not apply might include: the power to accelerate debt repayment upon the occurrence of an event of default (including the dissolution, sale, merger or reorganisation of the issuer) and the power to agree with the issuer on minor, formal or technical amendments to the terms of the debt instrument.[34]

It would, however, be "unusual" to delegate to the representative more far-reaching powers, such as agreeing to substantive changes in the terms of the issue, without a resolution of the general assembly of creditors; "unusual" terms might not be enforced by Swiss courts.[35] It is not common for debt instruments to contain clauses empowering the representative to commence court or arbitration proceedings.

Debt instruments issued by debtors domiciled outside Switzerland generally do not contain more than rudimentary procedural rules applicable to the measures or decisions taken by the representative. Thus, the representative will usually be obliged to allow the issuer a certain amount of time in which to cure any default, before the representative can call in the debt. Debt instruments, however, generally contain procedural rules relating to the holding of debt holders' meetings, in particular, rules for quorum.

Whether and, if so, to what extent, the existence of a representative can restrict or limit the rights of individual creditors depends on the terms of the debt instrument. Accordingly, it appears that where the terms of a debt instrument empower a representative to take certain actions upon the occurrence of an event of default, the implication is that those actions are open to the representative alone, unless the debt instrument expressly states that debt holders are entitled individually to take such actions. The market practice, however, is that the representative is not granted, in the debt instrument, the right to agree, for instance, to a moratorium with the issuer; instead, the general

[33] Furthermore, in accordance with Swiss agency law principles, the representative is generally obliged to exercise due care in comprehensively protecting the debt holders' interests.

[34] In addition, the representative will be responsible for passing onto the debt holders indemnification, received from the issuer, for any taxes introduced after the debt issue. The representative might also be responsible for verifying whether any conditions for a change in the debtor are respected, if necessary.

[35] The terms contained in any debt instrument will be interpreted in the same way as general business conditions and therefore a court might refuse to allow the application of "unusual" terms which would operate to the detriment of investors, including institutional investors.

assembly of debt holders may resolve to take this sort of measure, or any other measure "encroaching" on the individual debt holders' rights and modifying any of the substantive terms of the issue.

In principle the representative's mandate lapses when the debt instrument (including all interest) is repaid. Although debt instruments usually do not contain any provision allowing for the termination of the representative's mandate, it appears likely that the general assembly of debt holders could resolve to terminate the representative's mandate, provided the issuer consented, because the representative's mandate is based on a contract among the debt holders and the debt issuer. Similarly, the general assembly of debt holders could probably, if necessary, appoint a replacement representative, with the consent of the issuer.[36]

Swiss law is chosen as the governing law of the vast majority of Swiss franc bonds issued in Switzerland by foreign issuers, principally because the rules governing the listing of securities on Swiss stock exchanges only permit the selection of a foreign law as the governing law of a debt instrument in "exceptional cases".[37] Furthermore, the courts at the domicile of the lead-managing bank are usually given non-exclusive jurisdiction over any disputes.[38] In contrast, non-Swiss franc denominated Eurocurrency bonds offered in Switzerland are usually issued and traded outside Switzerland and governed by a law other than Swiss law.

10. UK

English statute law does not require any specific form of collective creditors' representation to be used in connection with debt instruments. However, in various debt offerings governed by English law, the debt issuer and debt holders frequently agree upon some sort of formal collective representation, notably the use of trustees or agents, as described below.

Holders of debt instruments (regardless of whether they provide for trustees or agents) frequently resort to informal or *ad hoc* arrangements for collective representation as and when problems arise with performance of obligations under the debt instruments.[39] Thus, bond documentation may provide for collective decisions to be made by bond holders' assemblies. In the event of a default by the issuer, the bond holders' assembly typically has the power to appoint a representative with wide powers, including negotiating on behalf of the debt holders. The debt holders' assembly can usually delegate to this representative any powers which the assembly could

[36] Pending appointment of any replacement representative, individual debt holders could probably petition the appropriate courts in order to obtain an order for performance of any contractual right which would normally have been exercised by the representative.

[37] The Admission Board for Swiss Stock Exchanges allows exceptions for foreign sovereign issuers, provided, *inter alia*, that the securities are deemed marketable from the Swiss perspective and the issuer waives its rights of sovereign immunity from jurisdiction and enforcement.

[38] Debt instrument terms often permit the debt holders to have recourse to the courts of the issuer's country of origin.

[39] This solution is typically used also when problems arise with short-term instruments (which usually do not contain provisions for collective representation) and commercial paper (which does not usually provide for meetings of note holders, unless it is issued under a medium-term note programme).

have exercised by "Extraordinary Resolution" (as described in the debt documentation). Extraordinary Resolutions by debt holders' assemblies are typically binding on all debt holders. Instruments such as Brady bonds, which do not provide for debt holders' assemblies, do not permit any bond holders' rights to be altered without their consent.[40]

a) Trustees

Where a trustee is used, the debt offering is structured around the trustee and the bonds (or other debt instruments) are constituted pursuant to a trust deed entered into between the trustee and the debt issuer. The trustee is to function from the date of execution of the trust deed, which provides that there must be one or more trustees during the life of the issue. Pursuant to the trust deed, the issuer covenants with the trustee that it will comply with its obligations in respect of the bonds and the trustee holds the benefit of this and the other covenants on trust (i.e. as a fiduciary) for the debt holders: the trustee is legally an agent of the debt holders. The trust deed is binding on the debt holders. The legal source for any arrangement using a trustee is contractual.

Trustees, if any, are standing permanent representatives appointed on signature of the trust deed and are usually selected by the issuer. UK market participants stressed the caution exercised in the appointment, such that trustees are usually selected from only among approximately half a dozen recognised specialists (e.g. trust corporations or financial institutions) active in a particular bond market. Furthermore, since the appointment of trustees is consensual, in that the debt holders agree to accept the trustee selected by the issuer, it usually cannot be challenged by the debt-holders. The involvement of a trustee is usually extinguished upon repayment of the issue.

Where a debt offering makes provision for a trustee, the precise powers and obligations of the trustee vary depending upon the terms agreed upon and contained in the relevant bond issue documentation. However, the trustee typically has certain powers to act on behalf of the debt-holders. Furthermore, the debt-holders are typically restrained from taking certain courses of action independently of the trustee. Thus, for instance, upon an event of default, typically only the trustee is able to exercise the debt holders' rights of acceleration. Typically, the trustee can do so at its discretion, but will usually be obliged to accelerate if instructed to do so by one or more bond holders representing a specified percentage (typically 20%) of the principal value of the outstanding debt issue.[41] An individual debt holder holding less than that specified percentage does not usually have any right to accelerate a claim where the debt has been issued with a trustee. However, a debt holder would be permitted to accelerate the amount outstanding in respect of the debt it is holding if he can

[40] Powers conferred upon a representative by a debt holders' assembly typically end by decision of the debt holders' assembly.

[41] The use of a trustee in connection with a debt issue will usually restrict the rights of individual bond holder to accelerate their claims, if any: a bond holder will usually have no right to accelerate unless he or she can prove that the trustee has been requested to accelerate by the required percentage of bond holders and has not done so.

prove that the trustee has omitted to accelerate upon instructions from the requisite percentage of debt holders.

Rather than accelerate against a sovereign debt issuer, a trustee is often more likely to exercise its right to call a meeting of debt holders before any possibility of a default becomes an issue. Thus the trustee would pass responsibility for dealing with the act of default onto the debt holders, who would get advance warning of problems before a crisis emerged. Furthermore the issuer might be able to avoid a disorderly default.

Similarly, the trustee's intervention might be needed if an amendment or waiver is sought by the debt issuer, or the trustee may have to enforce a collateralised debt, provided any predetermined majority of debt holders required the trustee to take action.

Even where a debt instrument has been issued with a trustee, in the event of a default by the debt issuer, debt holders will sometimes appoint a representative, with more powers than the trustee, to negotiate on their behalf with the issuer. Thus, a debt holders' meeting may appoint a representative by passing an "Extraordinary Resolution" on a "Reserved Matter". This representative (or committee of representatives) can have any powers delegated to it which the debt holders themselves could exercise by Extraordinary Resolution.

b) Fiscal agents

Most Eurobonds are either governed by English law or by US law. Whereas US Eurobond issues tend almost exclusively to use fiscal agents, UK Eurobonds are fairly evenly divided between using either a trustee or a fiscal agent.[42]

Fiscal agents, if any, are usually designated in fiscal agency agreement and selected by the issuer. UK market participants stressed the caution exercised in the appointment such that (as with trustees) names of fiscal agents are selected from among approximately half a dozen recognised specialists. The fiscal agent has an administrative role in respect of the debt instrument and is legally an agent of the issuer, with no or limited responsibility to the debt holders. However, the fiscal agent's position at the centre of the debt holder's group can mean that fiscal agents find themselves playing a role in co-ordinating action in any crisis.

Where a debt instrument has been issued with a fiscal agent and a crisis develops, the debt holders might decide to appoint a "representative" or "committee of representatives" in much the same way as a representative might be appointed to supplement the powers of a trustee. If a representative is appointed, it might be the original lead manager or alternatively one of the larger bond holders.[43] The process of acceleration seems to be less orderly in the case of debt issued with a

[42] There is never a statutory obligation to use a fiscal agent.

[43] It is difficult to appoint the fiscal agent as the representative without creating a conflict of interest as the fiscal agent is an agent of the debt issuer.

fiscal agent. An individual debt holder may be permitted to accelerate its own debt and, subject to the terms of the issue documentation, could be able to accelerate the entire debt.

The involvement of a fiscal agent is extinguished with the repayment of the debt, although the fiscal agent may still have some residual responsibilities, for instance where bearer coupons have not been honoured. In practice, although a fiscal agency agreement usually provides for the replacement of a fiscal agent during the life of the issue, this occurs only rarely.

c) Facility agents

Most syndicated loans governed by English law call for a "facility agent" to represent syndicate members for the duration of the loan.

The facility agent is a permanent representative, chosen by the borrower initially and named in a facility agreement. The facility agent has a chiefly administrative role (e.g. it is the conduit for payments and notices), but is an agent of the members of the syndicate rather than of the borrower. Facility agents may have some discretion to act on behalf of the syndicate members on certain minor issues and also a discretion to accelerate or to enforce repayment of a loan in the event of a default, but rarely exercise these powers: most decisions on matters such as acceleration are usually taken by a specified majority vote among the syndicate members (usually 66% or 75%). Syndicate members are usually allowed independently to enforce their debt, when due and owing.

When problems arise, syndicates often set up on an *ad hoc* basis "advisory committees" or "steering committees" which have similar functions to the debt holders' representatives described above in connection with trustees. The steering committees have limited authority to act on behalf of the syndicate during the period of default and may attempt to negotiate a rescheduling or compromise with the borrower on behalf of the syndicate. Steering committees of banks have in the past had considerable freedom of action and significant, although informal, powers to make decisions on behalf of the rest of the syndicate.

Syndicated loan agreements in which financing is provided to sovereigns in emerging markets tend not to provide for collective action by creditors. Each creditor can therefore independently accelerate its own claims upon the occurrence of an event of default and can then sue once payment is due and owing. Furthermore, no creditors can have their rights changed without their express consent.

11. US

Under US law, there are three main forms of collective "representation" of debt holders: trustees, fiscal agents and syndicate agents, all three of which are discussed separately below.

However, when a crisis arises, creditors often resort to various informal or *ad hoc* forms of collective representation, regardless of whether any formal collective representation is already in place.[44]

a) Trustees

Under the TIA, independent trustees with specific rights and duties must be appointed to serve as debt holders' representatives in connection with certain debt offerings in the US market which are subject to the registration requirements of the US Securities and Exchange Commission ("**SEC**"). These debt instruments generally include bonds, debentures and notes of foreign private issuers.[45] However, bonds of (or guaranteed by) foreign official issuers, as well as bonds issued in private placements or offshore (including bonds of foreign private issuers) even though governed by US law, are exempt from the application of the TIA; although exempt, these bonds may also be issued with a trustee.

Bonds issued with a trustee are issued under a contract known as an indenture, between the debt issuer and the trustee, which sets out the terms under which the trustee is to operate and function. A trustee used in connection with a US issued debt instrument is therefore a permanent representative which is named in the transaction documents and is to function immediately from signature of the transaction documents in accordance with the terms of the indenture. The TIA sets out certain criteria which apply to the identity of the trustee, including that there must always be one or more trustees, at least one of which is an entity organised and doing business under the laws of the United States, or a state of the United States or which is specifically authorised to act as a trustee by the SEC.[46]

A trustee represents[47] the holders of the debt instruments issued under an indenture, which may include bonds issued in more than one series. The trustee owes various duties, including fiduciary duties, to the holders of the debt instruments covered by the indenture. When a trustee is appointed as a result of the TIA, the TIA imposes certain mandatory powers and duties upon the trustee.[48] Where the trustee is not appointed as a result of the TIA, the powers and duties of the trustee will reflect the agreement negotiated by the parties, or the market practice and no terms will be implied by operation of the TIA.[49] This said, debt instrument provisions concerning bond holders'

[44] Bankruptcy is not considered for present purposes.

[45] The TIA applies to every note, bond, debenture, or evidence of indebtedness issued in the United States, whether or not secured, which does not fall within a specific exemption.

[46] The institutional trustee must have a combined capital and surplus in excess of US$ 150,000. No obligor upon the indenture securities, nor any person controlling or controlled by the obligor is permitted to act as trustee.

[47] The trustee's powers to "represent" the bond holders are limited.

[48] The TIA also imposes certain duties upon the obligor.

[49] In these circumstances, bondholder rights and collective representation arrangements are determined exclusively by market practice and contract.

collective representation tend to follow a pattern, even where the TIA does not apply and there is consequently no obligation to appoint a trustee.

The trustee is generally responsible for disseminating information to the debt holders. Thus, at least every 12 months, a trustee appointed under the TIA must provide the debt holders with any information it has regarding the following matters:[50]

(a) any change in its eligibility to be trustee;

(b) the amount, interest rate and maturity date of all indebtedness owed to it, in its individual capacity, by the obligor;

(c) any change in the property and funds physically in its possession as trustee;

(d) any change to any property subject to the lien of the indenture;

(e) any additional issue of indenture securities which it has not previously reported;

(f) any action taken by it in the performance of its duties under the indenture which it has not previously reported and which materially affects the indenture securities or the trust estate.

In addition, the trustee must, within 90 days, transmit to the debt holders a brief report with respect to:[51]

(a) the release of property subject to the lien of the indenture; or

(b) the character and amount of any advances made by it since the date of the last report where the trustee itself claims a lien or charge, if such advances remaining unpaid at any time aggregate to more than 10% of the principal amount of the indenture securities outstanding.

Regardless of whether there is a trustee (either as a result of the TIA or otherwise), it is the market practice in the United States for creditors to communicate on an informal and *ad hoc* basis if the obligor encounters payment difficulties. In the event of a default, the trustee under an indenture governed by the TIA must give notice of the default to the debt holders within 90 days.[52] The trustee may also take certain actions upon the occurrence of an event of default: the trustee can accelerate debt repayment in certain circumstances.[53] Furthermore, if a payment of principal or interest is

[50] Furthermore, under the TIA, the trustee is obliged to keep a list of the holders of debt. Three or more holders of the debt may request the trustee to supply them with a copy of this list so that they can communicate with the other holders and discuss their rights under the indenture. If the trustee refuses to make the list available, which it may do if it believes that disclosure "would be contrary to the best interests of the indenture security holders or would be a violation of applicable law", the holders may request an order from the SEC to compel the trustee to allow access to the list.

[51] The trustee's reports must also be filed with the SEC and the stock exchange on which the indenture securities are listed.

[52] However, if there has been a default in the payment of interest, principal or a sinking fund instalment, the trustee is protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors and/or responsible officers, or the trustee in good faith determine that withholding of such notice is in the interests of the indenture security holders.

[53] Typically, either the trustee, or the holders of a fixed percentage of the debt (perhaps 25%), may accelerate, although indentures generally provide that acceleration can be rescinded by a majority of debt holders.

overdue, the TIA provides that the trustee may, in its own name, sue the issuer for the whole amount of the principal or interest remaining unpaid; a trustee will usually also have this right even where the TIA does not apply.

Even though the trustee is entitled to sue on behalf of the debt holders, the holders of a majority of the debt will usually direct the trustee as to the time, method and place for conducting any proceeding for obtaining any remedy. Furthermore, in practice, a trustee is likely to consult individual debt holders before taking any action, as it can shield itself from potential liability to the debt holders for its actions or inactions by acting with the approval of at least 50% of the debt holders.

The existence of a trustee does little to restrict or limit the rights of individual debt holders: the right of individual debt holders to sue for overdue principal or interest is nearly absolute[54] and, under the TIA, the consent of each debt holder must be obtained in order to allow the trustee to alter the rights of that holder to receive principal and interest in the amounts originally agreed upon on the stated due date.[55] This consent is almost always needed in practice for all debt instruments governed by US law, even when the TIA does not apply. As a result, the trustee cannot, without the consent of each affected holder, agree to a standstill or rescheduling, as this would result in payments of interest or principal being made at times or in amounts other than those originally agreed. Furthermore, a trustee cannot waive or amend significant indenture covenants, including negative pledge clauses, without obtaining the consent of at least a majority of the debt holders by value.[56]

Few formal, procedural rules apply to the actions of a trustee, whether appointed under the TIA or otherwise. Generally, the trustee will seek guidance from the majority of debt holders on any significant procedural matters, as it would arguably be imprudent for the trustee not to follow the wishes of the debt holders which the trustee purports to represent.[57]

There is generally no possibility of appealing against decisions taken by the trustee, even though indenture contracts often provide that a stated percentage of the debt holders may rescind a trustee's decision to accelerate. In addition, decisions taken by a majority of the debt holders can reverse or effectively dictate the actions to be taken by a trustee, as the trustee can shield itself from potential liability to the other debt holders if it acts in accordance with the majority, by principal amount, of the holders.

A trustee appointed under the TIA may be disqualified from function if it has, or acquires, a conflicting interest and does not either resign or eliminate the conflicting interest within 90 days. Any debt holder who has been a *bona fide* holder of debt instruments issued under an

[54] There are some statutory exceptions.

[55] The fact that a trustee is able to sue on behalf of the other holders may influence an individual debt holder's decision over whether to sue, even though each individual holder retains its right to sue.

[56] The power of a trustee to act on behalf of bond holders outside of the United States is not subject to any specific limit, except as might arise under any applicable non-US law.

[57] The TIA generally allows the holders of at least a majority by principal amount of the debt to direct the actions of the trustee. Furthermore, the trustee may be required to take certain actions upon the direction of a specified percentage of bond holders by amount.

indenture for at least six months may, on behalf of himself and all other similarly situated debt holders, petition any court of competent jurisdiction for the removal of the trustee and the appointment of a successor, unless the trustee's duty to resign has been stayed. Furthermore, indentures generally provide that the holders of a majority in principal amount of the outstanding debt issued under an indenture may replace the trustee.

b) Fiscal agents

When a trustee is not required by the TIA, debt instruments, including bonds, debentures and notes issued or guaranteed by foreign sovereigns and other official entities, which are offered in the US market, are often issued with a fiscal agent.[58]

There is never a statutory requirement to use a fiscal agent. The decision to use a fiscal agent, as opposed to a trustee (in situations where there is no statutory requirement to use a trustee), is largely driven by convenience, cost and marketing factors.[59]

Fiscal agents are usually standing or permanent representatives selected by the borrower and named in a fiscal agency agreement entered into between the debt issuer and the fiscal agent, which also usually sets out the powers and duties of the fiscal agent. Fiscal agency agreements sometimes also contain provisions requiring notice to bond holders and providing for bond holders' meetings which may facilitate collective decision making by bond holders. The fiscal agent is typically a commercial bank, trust company or an affiliate thereof (although there is no formal requirement in this regard) and will usually have to meet minimum size requirements in terms of its capital and surplus. As the issuer usually appoints the fiscal agent, it is generally also free to remove the fiscal agent, at any time, with or without cause and to replace it with a new agent of its choice.[60]

The fiscal agent performs limited, administrative, debt-servicing duties on behalf of the issuer: unlike trustees, fiscal agents do not represent the debt holders, even if they can facilitate co-

[58] This also applies, inter alia, to debt instruments of foreign private issuers offered under an exemption from the registration and disclosure requirements of the SEC.

[59] Several US practitioners claimed that the choice between a trustee and a fiscal agent makes little practical difference in workouts of foreign debt governed by US law: trustees have no financial incentive to take independent action and, as they are potentially liable to debt holders for any breach of their fiduciary duties, they are generally not inclined to take any substantive decision concerning a bond workout without instruction from a large majority of debt holders. Consequently, the major debt holders usually need to be at the table, or at least directly consulted, regardless of whether there is a trustee. There may also be certain market preferences for using a trustee as opposed to a fiscal agent, even where there is no statutory obligation to use a trustee. Thus, in the case of collateralised bonds, it may be seen as advantageous to have a trustee hold and deal with the collateral.

[60] The fiscal agency agreement sometimes provides that any new fiscal agent must comply with certain eligibility requirements and also that a stated percentage of the debt holders must not object to the new fiscal agent. Fiscal agents generally can resign at any time upon giving written notice to the issuer. Otherwise, the functions of a fiscal agent will normally cease when the fiscal agency agreement expires, which typically will occur when the issuer discharges the whole debt, or all of the debt is extinguished after exchange for other instruments not covered by the fiscal agency agreement.

ordination of the debt holders.[61] Thus a fiscal agent receives payments of principal and interest from the issuer and disperses those payments to the debt holders in the manner specified in the fiscal agency agreement. When payment of the full principal amount is made, the fiscal agent often has to cancel, retire or destroy the bonds and to certify to the issuer that it has done so or to request a depository e.g. Euroclear or Cedel to cancel the instruments.[62]

In addition, the fiscal agent generally has various duties for receiving and disseminating information. For instance, if the issuer is contemplating not making a payment on time, it is generally obliged to notify the fiscal agent who will in turn have to notify the debt holders. Similarly, the fiscal agent may be designated to receive notice from a debt holder that an event of default has occurred and that the debt holder wishes to accelerate; in this situation, the fiscal agent must notify the issuer. However, the fiscal agent generally has no duty to the debt holders in the event of default, other than giving notice of the event of default.[63]

As the fiscal agent is the agent of the issuer and not of the debt holders, the fiscal agent has no authority to take any action on behalf of the debt holders upon an event of default by the issuer. The individual debt holders retain exclusive power to take action in response to an event of default, including suing the issuer. However, in a typical fiscal agency agreement, when a specified percentage of the debt holders has determined to accelerate, the agent is required to so inform the issuer and all the other debt holders.

Some fiscal agency agreements contain provisions which require the fiscal agent to convene a meeting of the debt holders upon being requested to do so by a specified percentage of the debt holders. When such a meeting has been validly called and a quorum is present, a majority of the debt holders in attendance can, for instance, resolve to take action to bind the others, except that changes in the basic economic terms of the debt instruments (including changes in the stated date of maturity of principal or interest, or accepting a reduction of the principal or interest payments) require the agreement of all debt holders.[64]

[61] As fiscal agents do not have a representational role, there is only rarely a challenge or appeal by debt holders against any action or decision of a fiscal agent. However, the agents can be sued by debt-holders.

[62] The fiscal agent is generally required to maintain the sums for making such payments in accounts separate from its own monies.

[63] In addition, the fiscal agent may have duties to maintain records of the outstanding debt instruments and to make these records available to the issuer as well as also notifying the issuer of any changes in relevant law (especially tax law) which might be to the detriment of the issuer.

[64] This is common for fiscal agency agreements governed by US law which are entered into in connection with Brady bonds.

c) *Syndicate agents*

Syndicated bank loans, in favour of foreign private or foreign sovereign borrowers, which are arranged or syndicated by US banks or offered on the US markets often feature a so-called "syndicate agent" or "agent bank".[65]

A syndicate agent is a standing or permanent representative who is usually named in a syndicate agreement among the debt issuer, the syndicate (of all the creditors under the syndicated loan) and the syndicate agent itself and will generally have been selected as the result of informal consultation among members of the syndicate. The syndicate agent will typically be a commercial bank of at least a minimum size, which is usually specified in the syndicate agreement (as with fiscal agents) and is often itself a member of the syndicate and therefore a creditor under the syndicated loan.

Syndicate agents do not represent the syndicate or the holders of the syndicated debt.[66] Syndicate agents perform limited, debt-servicing administrative duties, similar to those performed by a fiscal agent, in respect of the debt covered by the agreement which appoints them. Thus, among other things, the syndicate agent receives, from the borrower, funds and documents and disperses or distributes them to members of the syndicate.[67]

A syndicate agent generally does not have an active duty to collect information on behalf of the syndicate or to provide the syndicate members with any information it receives with respect to the borrower and/or guarantor, if any, whether any such information comes into its possession before or after the disbursement of the loan. Nor does the typical syndicate agent have any duty to enquire into whether the borrower or guarantor has performed any of its obligations under the loan agreement, guarantee or any other agreement. However, the typical syndicate agent must give prompt notice to each member of the syndicate as soon as the agent itself receives notice of an event of default.

The typical syndicate agent has no power or obligation to sue in its own name on behalf of the syndicate members (or to take any other action to protect the syndicate members' interests) upon the occurrence of an event of default. However, as the syndicate agent is generally one of the syndicate members, it may carry out, or consent to, any action in its capacity as a syndicate member. Upon the occurrence of an event of default, each individual syndicate member will normally be entitled to sue the debtor for any overdue amounts or other breaches of the terms of the loan agreement, even though it is unlikely to do so without at least consulting other members of the syndicate.

[65] There is never a statutory requirement to use a syndicate agent.

[66] Given the duties it has to perform, a typical syndicate agent is held to a low standard of care and will generally be liable to the syndicate members only for gross negligence or wilful misconduct. Moreover, the syndicate agent is allowed to rely on any document signed by the proper person and believed by it to be genuine. In the absence of bad faith, the agent generally has no affirmative duty to make further enquiries about any information it receives.

[67] However, unlike a fiscal agent, the syndicate agent performs its duties for the syndicate of lenders and not for the borrower.

Most syndicate agreements specify that, upon occurrence of an event of default, the syndicate agent must accelerate a loan, if it is requested to do so by a specified percentage of syndicate members. However, although the terms of many syndicate agreements restrain individual syndicate members from accelerating the loan, syndicate members can usually commence a lawsuit upon any payment default or other event of default, thereby provoking acceleration. Although commencement of a lawsuit may provoke creditors to accelerate the loan, this is not automatic. Furthermore, unanimity of the syndicate members is generally required for changing any of the basic economic terms of the debt, although lesser majorities, typically two-thirds, might be sufficient to amend or waive other covenants, including negative pledge covenants.[68]

The functions of a syndicate agent typically cease when the debt obligations are fully discharged by the borrower. A typical syndicate agent can usually be replaced, with or without cause, by a fixed percentage of the syndicate members (often a majority by principal amount). A syndicate agent may also resign at any time by giving written notice to the obligor and also to the syndicate members. Upon either instance, the syndicate members may appoint a successor agent. If they do not do so within a specified time, the former agent may be entitled to appoint a successor agent.

[68] Most syndicate agreements do not contain any significant procedural rules specifying the way syndicate agents have to operate, as agents generally cannot take independent action to alter the terms of the debt or control lawsuits with respect to the debt, or to amend or waive any of the debt provisions.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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May 15, 1996

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of April 1996.

As indicated in this table, U.S. reserve assets amounted to $83,710 million at the end of April 1996, down from $84,212 million in March 1996.

U.S. Reserve Assets
(in millions of dollars)

End of Month	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/3/	Foreign Currencies 4/	Reserve Position in IMF 2/
1996					
March	84,212	11,053	11,049	46,861	15,249
April	83,710	11,052	10,963	46,578	15,117

1/ Valued at $42.2222 per fine troy ounce.

2/ Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of selected member countries. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.

3/ Includes allocations of SDRs by the IMF plus transactions in SDRs.

4/ Includes holdings of Treasury and Federal Reserve System; beginning November 1978, these are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
May 16, 1996

Contact: Jon Murchinson
(202) 622-2960

TREASURY INTENDS TO ISSUE INFLATION-PROTECTION SECURITIES

Secretary Robert E. Rubin announced Thursday that the Treasury Department intends to issue securities that provide protection against inflation as a multi-year experiment.

Inflation-protection securities are designed to strengthen national savings by offering Americans an investment that guarantees a return in excess of inflation. These securities will be available in denominations as low as $1,000 in order to make them available to individuals saving for retirement, their children's education and other long-term goals. Individuals on fixed-incomes seeking to protect the real return on their investments, pension funds and insurance companies are also potential investors in inflation-protection securities. It is anticipated that all taxpayers will benefit as these securities are expected to reduce Treasury's financing costs.

The return on the new securities will be linked to inflation in prices or wages and carry longer term maturities of 10 or 30 years. Treasury is considering using various measures of inflation including the Consumer Price Index for All Urban Consumers (CPI-U), the core CPI (CPI-U, excluding food and energy), the Employment Cost Index, which are all published by the Bureau of Labor Statistics of the Labor Department, and the GDP deflator published by the Bureau of Economic Analysis of the Commerce Department. Treasury is also examining several different structures for the new securities. These include securities that would provide some current income through two different structures and additionally a zero-coupon inflation-protection security that would eliminate reinvestment risk.

Treasury is seeking comments from all interested parties on a number of the proposed features of inflation-protection securities. With this in mind, the Department will hold meetings with potential investors in Washington, D.C., New York, Boston, Chicago, San Francisco, London and Tokyo to present the details of the proposed security and gather comments and suggestions.

Further details can be found in the Advance Notice of Proposed Rulemaking which is publicly available today and will be published in the Federal Register next week.

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RR-1071

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
May 16, 1996

Contact: Jon Murchinson
(202) 622-2960

MEDIA ADVISORY

Treasury Secretary Robert E. Rubin will hold a press briefing on the department's intention to issue inflation-protection bonds today at 11 am at the Treasury Department, MT 4121, 1500 Pennsylvania Avenue, NW.

Cameras may set up between 10 a.m. and 10:30 a.m. Media without Treasury, White House, State, Defense or Congressional credentials wishing to attend should contact the Office of Public Affairs at (202) 622-2960, with the following information: name, Social Security number and date of birth, by 10:30 a.m. This information can be faxed to (202) 622-1999.

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RR-1072

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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ADV 11 A.M. EDT
Remarks as prepared for delivery
May 16, 1996

STATEMENT OF TREASURY SECRETARY ROBERT E. RUBIN
INFLATION INDEXED BONDS PRESS CONFERENCE

Helping the economy and raising incomes requires increasing productivity, and the saving rate is central to that objective. The initiative we are announcing today has the potential of raising our national saving rate as well as reducing the cost of capital to the federal government. Today we are announcing our intention to issue securities that will offer investors protection against inflation. Americans' retirement savings in their pension plans or their own IRAs can have inflation protection, which can help ensure their retirement security.

The Treasury Department intends to offer inflation protection bonds as part of our ongoing program of debt finance. Each year the value of the security will keep pace with inflation. The minimum denomination we propose is $1,000 -- well within the reach of many savers. Individuals can buy them from brokers, directly from the Treasury department through TREASURY DIRECT, and through mutual funds and other intermediaries. Once the program is established, we expect to add inflation protection securities to the savings bond program as well.

One type of indexed bond we are considering would work this way: Invest $1,000, for example, on January 1st, and if inflation is 3 percent over the year, the security will be valued at $1,030 at the end of the year. Let's say the interest or coupon rate is also 3 percent. At that point, the security will be paying 3 percent interest on the higher value. And that will continue on through maturity. We're looking at 10-year or 30-year maturities. If someone bought a $1,000 10-year security for their child's college education, and inflation averaged 3 percent, they would receive almost $1,350 back from the Treasury, and the security would have been paying interest for a decade. If inflation is less, the payout will be lower, and if inflation is higher, the payout will be higher.

We are also considering two other structures -- a zero-coupon inflation-protection bond, and an inflation-protection bond that would include periodic payments of interest and principal. Further details on these are in the Advanced Notice we are releasing.

(more)

We think the kinds of investors who will be most interested in these securities will be individual Americans saving for their retirement or for other long term purposes, including their children's education. In addition, financial institutions such as mutual funds, insurance companies and pension funds that help individuals save should be interested in these securities.

We believe these bonds will offer savers value-added in the form of protection against inflation, plus a real rate of return backed by the full faith and credit of the United States, and in return for offering that value-added, over time the cost of financing to the federal government will be lower than it otherwise would be.

Our plans are at an early stage, and I cannot tell you today precisely when the first quarterly auction could occur. As someone with extensive experience in securities matters, I know that bringing a new product to market takes time and it doesn't happen overnight. But I believe that in time this will become a well-used program that Americans will value as a savings vehicle for retirement, education and other long-term needs, and as a consequence the markets in these securities will grow in depth and breadth.

The Treasury Department has through its history focused on the most cost-effective ways to finance the federal debt. If you recall, in 1993 Treasury changed the maturity mix of government securities, something that was initially looked on with some skepticism, but which since has won considerable praise and is saving the taxpayers $7 billion. And today, we are announcing the intention to issue inflation protected bonds as a further step in this direction, as well as a step we believe can help promote savings in the country.

There are a number of decisions which must be made before the first securities are issued. One of the issues to be resolved is what inflation index to use. At the moment, the four we are examining most closely are the Consumer Price Index for Urban areas, the Core CPI and the Employment Cost Index, all calculated by the Bureau of Labor Statistics at the Labor Department, and the GDP deflator, calculated by the Bureau of Economic Analysis at the Commerce Department.

We are asking in the Federal Register for public comments on the proposal. In addition, we want to go out and talk with investors and dealers who may have an interest in these securities. Accordingly, we plan to hold a series of investor meetings in Washington, New York, Chicago, Boston, San Francisco, Tokyo and London this month and next to gather investor comments.

This is a common sense approach to government and an excellent example of government reinvention -- protecting Americans from inflation with an innovative investment method, and saving them money as taxpayers by holding down borrowing costs.

Thank you.

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QUESTIONS AND ANSWERS
ON MARKETABLE INFLATION-PROTECTION SECURITIES
May 16, 1996

General Information

Q: Why does the Treasury intend to issue inflation-protection securities?

A: The Treasury intends to issue inflation-protection securities in order to save on interest costs and to expand the menu of financial assets available to investors in U.S. financial markets. The Treasury believes that it would lower the burden of servicing the federal debt by offering investors a security that will not lose value because of inflation. The new security should result in a broader market for Treasury securities and eliminate the need for Treasury to pay investors for assuming inflation risk.

For example, Treasury believes individuals saving for retirement and other long-term goals, like college for their children, could benefit from investing in these securities. Other investors who may find inflation-protection securities filling an investment need include pension plans and insurance companies that offer annuities. In short, the Treasury expects that inflation-protection securities would benefit both taxpayers, by lowering government financing costs, and financial markets generally, by providing investors a useful financial instrument that has not previously been available. Treasury is seeking comment from all interested parties on a number of proposed features of inflation-protection securities.

Q: Why is the Treasury asking for comments concerning inflation-protection securities?

A: The Treasury believes that inflation-protection securities hold a lot of promise as a cost-effective way to borrow. Nevertheless, we realize that this type of security is very different from any other security the Treasury issues. Consequently, we are specifically asking for comments from market makers, potential investors, and other interested persons on the choice of index, the structure of the security, auction technique, offering sizes, and maturities. This is a prudent way to proceed before issuing a completely new security.

Accordingly, we have delivered to the Federal Register an Advance Notice of Proposed Rulemaking on inflation-protection securities, which will be published in a few days and is now publicly available. In this notice, the Treasury asks commenters for advice both on general and highly technical issues concerning inflation-protection securities.

In addition, the Treasury is also planning to hold a series of investor meetings in New York, Washington, D.C., Chicago, Boston, San Francisco, London, and Tokyo on inflation-protection securities in late May and in June. For information about attending these meetings, please contact the Office of Financing, Bureau of the Public Debt, at 202-219-3350.

Other Benefits

Q: Are there other possible benefits to issuing inflation-protection securities?

A: Yes. Inflation-protection securities reduce the sensitivity of the budget to changes in real interest rates by enabling the Treasury to lock in its real financing costs for a relatively long time. Also, the prices at which inflation-protection securities trade in the market may provide information concerning real interest rates and inflationary expectations which monetary policy officials at the Federal Reserve and others would find useful.

Potential Investors

Q: Who does the Treasury anticipate would buy inflation-protection securities?

A: We believe that inflation-protection securities would appeal initially to investors saving for retirement in tax-deferred retirement accounts and to entities such as pension funds whose liabilities are sensitive to inflation. Once the market becomes established, other institutional investors, such as insurance companies, might become potential investors if they begin to market new inflation-linked products, such as an inflation-indexed annuity.

The design of the security and the specific index chosen may affect which potential investors find the security most useful in their portfolios. The Treasury is asking for comment on the choice of index and structure of the security in its Advance Notice of Proposed Rulemaking.

Q: What advantages do inflation-protection securities present to the average investor?

A: For the average investor saving for retirement, inflation-protection securities would present them with the opportunity to invest in an obligation backed by the full faith and credit of the United States Government that guaranteed a return in excess of inflation. We believe that this would be quite attractive.

Q: Why is the Treasury targeting pension and retirement savings?

A: The Treasury believes that the large growth of pension funds and other retirement accounts is a potential source of funding that Treasury should tap. In addition, the large growth in both absolute and relative terms of self-directed retirement accounts, such as IRAs and 401(k)'s, provides a potentially large pool of funds that might invest in these new securities. Individuals saving for their retirement would have available to them for the first time a conservative investment that guarantees them a return above the inflation rate. Also, the Treasury believes that providing an attractive vehicle for retirement savings may encourage Americans to save more for their retirement and help increase the Nation's savings rate.

Q: Does the Treasury intend to offer inflation-protection securities to small investors?

A: Yes. The Treasury plans to offer inflation-protection securities with a minimum denomination of $1000 (value of principal at issuance) and to make them available through TREASURY DIRECT for investors who want to have a direct account with the Treasury.

Structure of Inflation-Protection Securities

Q: Are there other countries which have successfully offered securities linked to inflation?

A: Yes. The most notable examples are the United Kingdom and Canada. The U.K. has successfully offered marketable Index-Linked gilts since 1981, and last year the market value of these securities comprised approximately 15 percent of the total market value of outstanding gilts. The U.K. has saved money by issuing these securities, since the actual rate of inflation has been lower than the difference between the yields on conventional and Index-Linked gilts. Canada began issuing marketable Real Return Bonds in 1991, and currently, the difference between the yields on their conventional and real return bonds is significantly higher than the current inflation rate.

Q: How would the coupon payments and adjustment to principal be calculated for inflation-protection securities?

A: Under one of the structures we are considering, the principal amount of the inflation-protection security would be adjusted for inflation, so that the adjusted value remains the same in constant dollars. For example, if the price or wage index to which the security is linked increases by 3 percent a year after the issue date, the principal amount of the security also increases by 3 percent. The interest paid on the security is a fixed percentage of the current value of the principal.

Q: Have any other countries issued a bond with this structure?

A: Yes. The specific structure outlined in the answer to the previous question and described in more detail in the Treasury's Advance Notice of Proposed Rulemaking is based on the Real Return Bonds issued by Canada. The Canadian bonds are in turn a modification of the Index-Linked gilts issued by the United Kingdom.

Q: Is the Treasury considering other structures for inflation-protection securities in addition to the Canadian model?

A: Yes. We are specifically asking in the Advance Notice of Proposed Rulemaking for interested parties to comment on two alternative structures.

One structure is a zero-coupon inflation-protection security. The Treasury would only make one payment on this type of security, which would be at maturity. This type of security might appeal to investors who need funds at a specific time in the future but do not need current income. For these investors, a zero-coupon inflation-protection security would avoid the need to reinvest coupon payments during the interim.

The second structure for which the Treasury is asking for comment is designed for investors desiring current income. Under this structure, the Treasury would make periodic payments of principal and interest, similar to payments on a mortgage. Ignoring lags in the indexation, each periodic payment would have the same value when adjusted for inflation, though the proportions of each payment representing principal and interest would change. Potential investors in this type of security would include those with a need for current income from their investments.

Measuring Inflation

Q: How would inflation be measured?

A: The Treasury is asking for comments on the most appropriate price or wage index for the new securities. The Treasury is specifically asking for comments concerning the Consumer Price Index, the core CPI (which excludes food and energy prices), the

Employment Cost Index, and the GDP deflator. After careful consideration of all the comments, the Treasury will decide what price or wage index would be the most appropriate to use for measuring inflation for inflation-protection securities.

Q: Will the recently announced changes in calculating the CPI make the Treasury more likely to link the securities to an alternative index?

A: The Treasury has not decided what index to use and is asking for comment from the public on this. The CPI is a possibility. The recent changes that become effective this summer were made to correct a technical problem known as "formula bias." These changes make the CPI a better index and thus do not lessen the possibility that we may decide to link the new securities to it.

Q: If Treasury chooses the CPI index for inflation-protection securities, would it be overpaying investors, since many economists believe that the CPI overstates inflation?

A: No. We do not believe that this would result in the federal government giving investors too good a deal. Even if the CPI overstates inflation, the total interest costs on this security would not be too high. The reason is that the market would take into account the extent to which it is perceived that the CPI overstates inflation in its pricing of the securities and competition in the market for the securities would ensure that the return on the securities would be at an appropriate level.

Q: What if price or wage inflation goes through the roof?

A: If price or wage inflation is very high for one year, or over a longer period, then investors would have the inflation protection they were seeking. The real value of their investment would have been maintained. The federal government would not be substantially more exposed to inflation than it already is. (The large amount of debt that needs to be refinanced each year means that a rise in interest rates, which happens when inflation increases, is reflected in the Treasury's financing costs very quickly.)

Q: What if price or wage inflation is negative?

A: There is a possibility that the federal government could report deflation in prices or wages for any one month, or even over a longer period. In such an economic environment, the nominal return on these securities would decrease, but then all interest rates would be lower. Moreover, if the sum of all the interest payments and the inflation-adjusted principal value at maturity of the inflation-protection security is less than the par value of the note or bond at issuance, the Treasury would make an additional payment at maturity for the difference. We do not expect that such a prolonged decline will occur that this minimum guarantee becomes meaningful.

Changes to the Inflation Index

Q: What happens if the federal agency responsible for issuing the price or wage index changes its methodology for calculating the index?

A: From time to time, federal agencies responsible for calculating the various price and wage statistics revise their methodologies in order to improve the accuracy of the indices. If the revision is made on a forward-going basis and does not affect previously published statistics, the Treasury would use the modified series for future calculations of principal value and interest payments. If the revisions are made on a backward-looking basis, then the Treasury does not intend to use a revised historical series to change its previous calculations of principal value or interest payments. Finally, in the event that the price or wage series is rebased, the Treasury would continue using the price or wage index series with the base year that was used when the security was first issued, as long as that series is still published. The reason for this is to maintain precision in the indexation of the security that may otherwise be lost due to rounding.

Q: What if the price or wage index used for inflation-protection securities is discontinued?

A: If the inflation index for an inflation-protection security is discontinued while that security is outstanding, the Treasury would consult with the federal agency which publishes the index in order for Treasury to select an appropriate substitute price or wage index and methodology for linking the two series. Determinations of the Secretary in this regard would be final. There are no plans to discontinue the indices currently under consideration.

Q: What if the Federal Government starts to publish a new price or wage index that is more accurate or appropriate for inflation-protection securities?

A: The Treasury expects that it would use the new price or wage series for indexing new inflation-protection securities. Outstanding securities would remain indexed to the original price or wage series.

Q: What happens if the federal agency responsible for the price or wage index is late in reporting the index for a given month?

A: If the price or wage index number for a particular month is not reported by the time that it is needed for determining accrued interest, the Treasury Department would announce by the end of the next business day an index number based on the last available twelve-month change in that index. This number would be used for all subsequent calculations and would not be replaced by the actual price or wage index number when it is reported. The Department believes that this calculation would rarely, if ever, be necessary.

Q: Why is it necessary for there to be a lag in the indexation of the security?

A: For an inflation-protection security modeled after the Canadian Real Return Bonds, the Treasury would choose a lag that is sufficient for the market to determine accrued interest on the security on a daily basis. For dates different from the ones for which a reported index number becomes effective, this requires that two index numbers be known so that a linear interpolation can be made between the two most recently published index numbers.

Amount of Issuance

Q: What size of offerings is the Treasury considering at the initial auctions of inflation-protection securities?

A: Because this is a new product, the Treasury plans to proceed cautiously, with initial offerings significantly smaller than the current sizes of Treasury auctions of conventional Treasury securities. We are specifically asking for comment on this subject in the Advance Notice of Proposed Rulemaking.

Maturities Offered

Q: What maturities does the Treasury intend to offer and what would be the size of the initial auction of inflation-protection securities?

A: The Treasury is considering issuing either 10-year inflation-protection notes or 30-year inflation-protection bonds. The Department will consider carefully market comments on the appropriate maturities and sizes of the auctions for inflation-protection securities.

Method of Sale

Q: How would inflation-protection securities be sold?

A: The Treasury would auction inflation-protection securities on a regular quarterly schedule, with both competitive and noncompetitive bidding.

Q: How would the auctions work?

A: The Department is considering offering the inflation-protection notes or bonds through a single-price auction each quarter. (Multiple-price auctions are also a possibility.) Options include two types of single-price auctions where the Treasury asks for bids in terms of real yield to three decimal places. Noncompetitive bids would be accepted up to $5 million. Further details are available in the Advance Notice of Proposed Rulemaking on inflation-protection securities.

Reopenings

Q: Does Treasury plan to reopen an issue of inflation-protection notes or bonds?

A: The Treasury might reopen an issue of inflation-protection securities. However, the flexibility to do this under changing market conditions is conditioned by tax issues involving the original issue discount rules, as is true for other Treasury securities.

Q: If Treasury decides to reopen an issue of inflation-protection securities, how would the Treasury reopening proceed?

A: A reopening would also be accomplished by an auction. For a Canadian-type security, investors would be asked to bid in multiples of $1000 of the original, unadjusted principal value. Treasury would announce the appropriate index ratio by the date of auction, so that investors could make their own calculations to derive the nominal, or current, principal value.

Savings Bonds

Q: Is the Treasury considering offering inflation-protection savings bonds?

A: Yes. The Treasury is considering issuing a new series of U.S. savings bonds that provides individual investors protection against inflation after a market for inflation-protection securities is established and market prices are readily available.

Tax Issues

Q: How would marketable inflation-protection securities be taxed?

A: Many potential investors, such as pension plans, individual retirement accounts (IRAs), and 401(k) plans, do not pay tax on current investment income. For a security structured similarly to the U.K. and Canadian inflation-indexed bonds, other investors would have to include in taxable income both the principal appreciation due to the inflation adjustment and the interest payments accrued or paid during the tax year. Both the appreciation of principal and the interest payments would be treated as interest income. The precise tax treatment in the event the principal decreases because of a decline in the applicable price or wage index has yet to be determined. Other tax details would be announced before the first issue.

Book-Entry System

Q: Would inflation-protection securities be available on the commercial book-entry system operated by the Federal Reserve Banks as the Treasury's fiscal agents?

A: Yes. The inflation-protection securities would be offered only in book-entry form, either through the commercial book-entry system (TRADES) or through TREASURY DIRECT. For a Canadian-type security, the minimum to hold and transfer would be $1000 of original par value; larger amounts would have to be in multiples of $1000.

STRIPS

Q: Would Treasury allow inflation-protection notes or bonds to be stripped through the Treasury STRIPS program?

A: For a Canadian-type inflation protection security, the Treasury would make the inflation-protection securities eligible for stripping on the commercial book-entry system sometime after the program of issuing these securities was initiated. Stripping on the commercial book-entry system would not be possible initially, for operational reasons. Eligibility for stripping might be limited to inflation-protection securities issued after a future effective date.

Inflation-Protection Securities and the Debt Limit

Q: How would inflation-protection securities be treated for the calculation of the debt limit?

A: For Canadian-type inflation-protection securities, at the beginning of every month, Treasury would adjust its calculations for the total debt subject to limit to reflect the appreciation of the principal value of inflation-protection securities due to changes in the applicable price or wage index.

SELECTION OF QUOTES BY GOVERNMENT OFFICIALS, ACADEMIC AND PRIVATE SECTOR ECONOMISTS ON INDEXING TREASURY SECURITIES TO INFLATION

Excerpt from the "Report to the Secretary of the Treasury" from the Treasury Borrowing Advisory Committee of the Public Securities Association, May 3, 1995

"The Committee recognized that there are conceptually sound reasons for believing that the issuance of inflation-indexed debt could lower the cost of borrowing over the longer term. Academic research often cites the existence of some inflation risk premium in the yields on conventional debt that the Treasury might capture through the issuance of inflation-indexed debt. By issuing both conventional and inflation-indexed securities, the Treasury might be able to segment to its advantage the market for its debt."

"The recent and prospective substantial growth in self-directed retirement plans, which to date have evidenced a strong preference for safe, conservative investments, may offer the potential of significant demand for inflation-indexed securities, either in marketable or savings bond forms."

"Defined benefit pension plans might also be a source of demand for inflation-indexed securities. An asset class with an assured real return together, in all likelihood, with low correlations with other standard asset classes is virtually certain to permit attainment of a higher level of 'portfolio optimality' and hence be an attractive investment to defined benefit plans."

Excerpt from May 7, 1995 New York Times Op-Ed Piece by James H. Smalhout of the Hudson Institute

"Indexed bonds deserve a place in America's diversified retirement saving. They could benefit millions of people who otherwise would be left to rely on unduly risky investments to keep up with inflation in their old age."

"Monetarists, like Milton Friedman, favor indexed bonds because they remove the ability of the Government -- the only borrower that can control the rate of inflation -- to repudiate its debts by inflating. And Keynesians, like James Tobin, believe that indexed bonds are much more like real goods than money. By trading indexed bonds, the Fed would have greater power to regulate the pace of the economy."

Excerpt from Statement by Alan Greenspan before the Commerce, Consumer, and Monetary Affairs Subcommittee of the House Committee on Government Operations, June 16, 1992

"The yields on bonds that protect purchasing power could be considered measures of 'real' rates.... For my own part, I am attracted by the prospect of opening a window on the market's view of the path for inflation that potentially could provide readings of price pressures being built into wages and of real interest rates influencing spending decisions."

"A timely and accurate reading on inflation expectations could considerably aid in economic forecasting by casting some light on incipient wage and cost pressures and by helping to divide changes in nominal asset values into their expected real and price components.

"Also, by routinely monitoring the markets for the [indexed and unindexed] debt instruments, the Federal Reserve could extract the market's evaluation of the consequences of policy operations."

"Nonetheless, I am confident that we would make use of new market-based indicators of inflation and real interest rates that would be made available by the issue of indexed bonds. Such measures may not mark the way as unambiguously as promised by their most vocal adherents, but they would help."

Excerpt from Column by Milton Friedman on Purchasing Power Bonds in *Newsweek*, April 12, 1971

"The government, and the government alone, is responsible for inflation. By inflation, it has expropriated the capital of persons who bought government securities -- often at the urging of high officials who eloquently proclaimed that patriotism and self-interest went hand in hand.

"The right way to avoid this disgraceful shell game is for the government to borrow in the form of purchasing power securities. Let the Treasury promise to pay not $1,000 but a sum that will have the same purchasing power as $1,000 had when the security was issued. Let it pay as interest each year not a fixed number of dollars but that number adjusted for any rise in prices."

Excerpts from James Tobin, Chapter 21, *Essays in Economics, Volume 1: Macroeconomics*, (Chicago, Markham Publishing Company, 1971), pages 439-447

"A substantial part of the independence of risk between current debt instruments and capital equity arises from their difference in status with respect to uncertainties of the future purchasing power of money. A purchasing power bond would share the role of capital equity as a hedge against changes in the price level. It would therefore be a much better substitute than existing debt instruments for ownership of capital."

"The government should issue marketable and nonmarketable bonds with purchasing power escalation, principal and interest geared to the Consumer Price index. Marketable bonds of this type would greatly improve the effectiveness of monetary control. The Federal Reserve, by buying or selling these securities, would be dealing in assets much closer to equity capital than conventional public debt instruments. The monetary authorities would thereby gain a much greater leverage over the supply price of capital. At the same time, purchasing power bonds would fill, either directly or through the intermediation of insurance companies and other institutions, a shameful gap in the available menu of financial assets. Savers of limited means and knowledge should not be forced to gamble either on the price level or on the stock market. Since investors will pay the government to avoid such risks, purchasing power bonds would save the taxpayer interest outlays."

Excerpt from an Editorial in the May 27, 1995 Issue of the *Economist*

"So here is a simple idea. Let governments carry more of the inflation risk themselves. That would not only help investors and encourage saving, but also give governments a strong new incentive to keep inflation under control. ...by using [inflation indexed] bonds, governments would strengthen the credibility of their anti-inflationary policies, as it would give them a strong incentive to keep inflation down.... A second advantage of index-linked bonds is that they make it easier for pension funds and other financial institutions to offer long-term inflation-proofed savings products.... Indeed, by offering a guaranteed real return, they might encourage people to put aside more of their own money for retirement, and so help to reduce the crippling -- and unsustainable -- pension burden of governments around the world."

Excerpts from "Fighting Inflation and Reducing the Deficit: the Role of Inflation-Indexed Treasury Bonds," 23rd Report by the House Committee on Government Operations of the U.S. Congress, October 29, 1992

"The Treasury's failure to issue indexed debt during the 1980's cost U.S. taxpayers many billions of dollars, possibly as much as $100 billion."

"On the basis of the foregoing findings, the committee concludes that selective issuance of properly designed indexed debt securities by the U.S. Treasury would materially assist the Federal Reserve in the management of monetary policy and would most probably also reduce Treasury financing costs on the Federal debt. The committee also believes that such a program would produce other substantive benefits for the economy and would contribute generally to economic efficiency, productivity, stability, and equity."

"Moreover, the broad economic benefits of such a program would justify even a modest increase in Treasury financing costs, if a cost increase should result."

"The committee therefore recommends immediate implementation by the Treasury Department of a permanent ongoing program to fund a portion of the Federal debt with indexed debt securities."

Excerpt from article entitled "Benefits and Limitations of Inflation-Indexed Treasury Bonds" by Pu Shen in the *Economic Review of the Federal Reserve Bank of Kansas City*, 1995Q3 issue

"Inflation indexed Treasury bonds would be a valuable innovation in U.S. financial markets, providing benefits to investors, the Treasury, and policy-makers. Not only could they protect both investors and issuers from inflation risk, but they could also save the Treasury interest expense on its debt. Moreover, combined with nominal bonds, indexed bonds would provide policymakers with additional information on real interest rates and inflation expectations. ...On balance, the conclusion reached here is that inflation indexed Treasury bonds could be a valuable addition to the spectrum of Treasury debt instruments."

Excerpts from Article by Alicia Munnell and Joseph B. Grolnic entitled "Should the U.S. Government Issue Index Bonds" in the *New England Economic Review*, September/October 1986

"The conclusion that emerges is that index bonds merit serious consideration as an addition to this nation's arsenal of financial instruments. They would allow people -- particularly older people -- to fully protect themselves against the risk of having their income eroded by inflation. At the same time, government-issued index bonds should neither disrupt financial markets nor substantially affect federal budget financing. In short, these bonds would significantly enhance the array of financial options at virtually no additional cost to the government or the taxpayer."

"Anyone saving for a specific goal, such as purchasing a house or sending children to college, should welcome the opportunity to ensure that such savings will not be eroded by inflation. Other investors may simply prefer the lower guaranteed positive return on index bonds to the risk of losing money on their portfolios.

"Moreover, in the United States there may well be a niche for index bonds that has not been adequately explored -- namely, the financing of fully indexed annuities for retirees. These annuities could play an important role in protecting elderly people against the erosion of their pension income during their retirement years."

"In summary, the long-run cost implications support the case for index bonds: errors in investors' expectations should cancel out and borrowing costs should be reduced by the elimination of the inflation-risk premium. The fact that the government absorbs the risks of unanticipated price changes need not be considered a significant burden. The government's nominal outlays would become less predictable, but its real outlays would become more so. Since government revenues are quite responsive to inflation, indexing the debt might reduce total budget uncertainty."

Excerpt from Column in the Wall Street Journal by Financial Consultant Ernest J. Oppenheimer, February 28, 1975

"Thus the most important gain is intangible yet very real, namely the restoration of justice to the dealings between the government and its people. The past 30 years have been grossly unfair to all those who have been prudent and saved their money. Their losses have been the gains of the profligate spenders, notably the government.

"...The procedure of linking government securities to rates of inflation is so simple and sound that one may wonder why it has not been implemented before in this country. The British classical economist Alfred Marshall, in fact, pointed out about 100 years ago that money alone cannot fulfill the function of a stable long-term standard of value. He recommended a procedure analogous to the one suggested here as an essential step for preserving the free enterprise system. Thirty years of chronic inflation have demonstrated beyond doubt the validity of Marshall's analysis."

Excerpt from Paper by Stanley Fischer in the Journal of Political Economy, 1975, Vol. 83, pp. 509-534

"The non-issuance of index bonds in the United States by either the federal government or corporations is something of a mystery.... The existence of such an asset would be particularly desirable on distributional grounds, since it would enable consumers to provide themselves with an assured standard of living for their retirements. Further, since there is an evident demand for the hedge provided by such bonds, they could be sold at a real interest rate below that on nominal bonds, so that no real costs to the Treasury would be involved in the substitution of some indexed bonds for outstanding nonindexed bonds."

Excerpt from September 29, 1995 Wall Street Journal Op-Ed Piece by Professor Robert J. Barro, Harvard University

"Long-term indexed debt avoids the sensitivity of real financing costs to shifts in inflation (the problem with long-term nominal bonds) and also eliminates the sensitivity to shifts in real interest rates (the problem with short-term nominal and real bonds).

"Indexed bonds are a win-win proposition. The U.S. government should introduce them now, when inflation is not a problem, rather than waiting for the next inflation crisis."

Testimony of Michael J. Boskin, Chairman, President's Council of Economic Advisers, Before the House Subcommittee on Commerce, Consumer and Monetary Affairs, June 25, 1992

"Long-term indexed instruments would facilitate the creation of privately issued liabilities that are fully indexed. For instance, if indexed bonds were generally available, then financial services companies would be better able to offer real annuities which would guarantee retirees a real income stream."

"Indexed securities would also prove valuable as an additional guide to monetary policy decisionmakers.... An active market in indexed bonds of different maturities alongside nominal bonds of the same maturities would add a much more direct and less noisy measure of expectations about inflation, which would be a very useful tool for policymakers."

September 21, 1995 London Times Column Entitled "We Want More Indexed Gilts" by Samuel Brittan

"It is not only the government that could benefit from more indexed bonds. When I used to ask people in pension funds why private-sector pensions were not indexed for inflation, the reply used to be that they had no inflation-proofed asset to guarantee such undertakings. 'You tell your friends in the [British] Treasury to issue indexed gilts and then come back to us about indexed pensions.' Well, they have and I have. Pension schemes might not be able to afford pensions which are both inflation-proofed and linked to final salary, but members could be given a choice."

"Indexed bonds should be of interest not only for the information they yield on inflation expectations when compared with conventional bonds. They should also be useful in themselves as a direct measure of the real rate of interest. Moreover, to the extent that there is a single international capital market, they should provide an estimate of the world real rate of interest rather than that of any particular country."

Excerpt from Statement by Senator Dan Quayle in the Congressional Record, May 7, 1985

"Mr. President, today Mr. Trible and I are introducing the Price Indexed Bonds Act of 1985.... The Price Indexed Bonds Act of 1985 would obligate the Department of the Treasury to issue, within 90 days of enactment, a series of Treasury securities indexed to the consumer price index."

"Mr. President, in the context of the Congress' struggle to find ways to cut Federal spending I am tempted to advocate this bill solely as a means of reducing Federal spending with no offsetting pain.... The bottom line is that we can expect the interest costs associated with price indexed bonds to be about 20 to 40 percent less than under conventional bonds. Moreover, this savings is practically a free lunch."

"Price-indexed bonds will be a valuable new financial instrument -- of especially great service to and in great demand by the elderly and others looking for a place to safeguard their real earnings against the ravages of inflation.... For instance, the young couple saving for their child's education might prefer an inflation-proof asset over a more inflation sensitive risk, such as conventional bonds, even if the former paid a lower yield. Likewise, the middle-aged couple usually saves prudently, rather than invests speculatively, for retirement."

"Price indexed bonds would eliminate one of the greatest incentives to the Federal Government to increase inflation....

In effect, the Government expropriated billions of dollars from investors in the sixties and seventies by selling bonds with nominal fixed rates and then debasing the debt by inflating the currency. This is the utmost in moral hazard."

Excerpt from "The Concept of Indexation in the History of Economic Thought," *Economic Review*, Federal Reserve Bank of Richmond, November/December 1974

"The practice of linking contractual payments to a specific price has a long tradition extending back at least to Elizabethan times. Thus, William Stanley Jevons remarks that during the reign of Elizabeth I, the colleges of Oxford, Cambridge, and Eton were required by law to lease out their lands for corn rents, i.e., variable money rents linked to the price of corn."

Excerpt from Note by R.A. Musgrave and G.L. Bach in the American Economic Review, December 1941, pp. 823-845

"Stable purchasing power bonds may prove a helpful contribution to the Treasury's endeavor to restrict the net income contributing effects of defense financing, since the offering of such bonds promises to increase the extent to which Treasury borrowing may syphon funds from the active income stream into defense outlays."

Excerpt from Comments Delivered by Stanley Fischer, Chief Economist at the IMF, a Conference on Inflation-Indexed Bonds at the National Press Club on April 21, 1995

"Just do it."

DEPARTMENT OF THE TREASURY

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Update: May 16, 1996

PRESS SCHEDULE

Meeting of Western Hemisphere Finance Ministers
Hosted by the United States of America
New Orleans
Friday, May 17, and Saturday, May 18, 1996

The following is an updated schedule and additional press information on the meeting of finance ministers from the 34 democratic countries in the Western Hemisphere that U.S. Treasury Secretary Robert Rubin will host in New Orleans on Friday, May 17, and Saturday, May 18.

This tentative press schedule and summary of press arrangements for the meeting is for planning purposes only.

Unless otherwise noted, all events are at Gallier Hall, 545 St. Charles Avenue.

The New Orleans Marriott Hotel is the conference headquarters.

Note: Signup deadline for the press boat tour of the Port of New Orleans, scheduled for 8:30 a.m., Thursday, is 5:00 p.m. Wednesday. Contact: Tom Hohan of MetroVision Economic Development Partnership (504) 527-6951.

This advisory may be updated.

Friday, May 17

8:30-10:30 a.m. Riverboat tour and press briefing on international trade and Port of New Orleans hosted by MetroVision Economic Development Partnership.

Note: Space is limited. A shuttle will be available for transportation from Marriott to boat tour and briefing, then from the tour to New

Orleans International Airport for 11:30 a.m. arrival statement with Secretary Rubin and New Orleans Mayor Marc Morial.

Contact: Tom Hohan of MetroVision at (504) 527-6951.

9 a.m. International Press Center opens at Gallier Hall.
Press credentials available for pickup.

11:30 a.m. Arrival statement by Secretary Rubin with New Orleans Mayor Marc Morial.
Location: New Orleans International Airport, Board Room.
Contact (Airport): Patricia T. Lotz at (504) 464-3547
Press Parking: At Oversize Vehicle Lot (ground lot adjacent to parking garage)

2:30-5:30 p.m. Inter-American Development Bank seminar on Liberalization, Development and Integration of Financial Markets in the Americas. Participants will include Treasury Secretary Robert E. Rubin, Counselor to the President, Thomas F. (Mack) McLarty, IDB President Enrique V. Eglesias, and a group of finance ministers and private sector representatives from throughout the Western Hemisphere.
Press: Open.
Location: Gallier Hall, 545 St. Charles Avenue.

6-7 p.m. Reception hosted by the City of New Orleans and Louisiana officials. This will include brief remarks by local officials and Secretary Rubin.

For planning purposes only: Arrivals scheduled to begin at 5:45 p.m. Remarks tentatively scheduled for 6:15 p.m.
Press: Credentialed press are invited to the reception; a riser area will be provided for working press.
Location: New Orleans Museum of Art, City Park, 1 Collins Diboll Circle.

Saturday, May 18

8 a.m. Press Center opens.

8:15 a.m. Cameras set up at Gallier Hall for arrivals.

9-9:30 a.m. Delegation arrivals.

9:30 a.m.-12:30 p.m. Plenary session.
Press: Opening remarks only; photo op at beginning of meeting; may be pooled.
Media will be escorted from/to International Press Center at 9:15 a.m.

10:45 a.m. Background press briefing on plenary session.
Location: Nord Theater briefing room, ground floor of Gallier Hall.

12:15 p.m. Cameras setup for group photo of finance ministers.

12:40 p.m. Group photo.
Location: To be announced at International Press Center.
Press: Open.

2:30-3:45 p.m. Plenary session.

3:15 p.m. Setup for concluding press conference

4 p.m. Concluding press conference.

5-7 p.m. Reception hosted by World Trade Center and other New Orleans business groups.
Location: World Trade Center, 2 Canal Street.
Press: Credentialed press are invited to the reception; a riser area will be provided for working press.

8 p.m. International Press Center closes.

Credentials. Press credentials are required for all media covering the meeting. An application for press credentials is attached.

International Press Center. The International Press Center will be open from 9 a.m. Friday, May 17, until 8 p.m. Saturday, May 18, at Gallier Hall, ground floor. The press center, open to credentialed reporters, will make available official schedules, press releases, information on events open to press coverage, transcripts and background information.

The International Press Center Information Desk can be reached at (504) 525-6147 or (504) 525-1165.

The press center will have a limited number of international credit and calling card telephone lines. Reporters wishing to reserve a dedicated telephone line in the press center should call Naomi Thomas of Bell South at (504) 528-7508 or (504) 592-1317.

Shuttle buses. Shuttle buses will provide transportation between conference locations for credentialed delegates, staff and press.

Conference Internet site: www.gnofn.org/mwhfm

Contacts.
U.S. Treasury/Washington
(202) 622-2960, fax: (202) 622-1999
Chris Peacock or Michelle Smith at Press Staff Office, New Orleans at (504) 525-7173 or (504) 525-7513

U.S. Information Agency/Foreign Press Center
Jonathan Baker at (202) 724-0040, fax: (202) 724-0007
Peter Brennan at (202) 622-2854, fax (202) 622-2854, e-mail pbrennan@usia.gov

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5/16/96

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Remarks as prepared for delivery
May 17, 1996

ARRIVAL STATEMENT OF TREASURY SECRETARY ROBERT E. RUBIN SUMMIT OF THE AMERICAS FINANCE MINISTERS MEETING NEW ORLEANS, LOUISIANA

Tomorrow marks a major step toward a unified effort throughout our region to raise and sustain economic growth that will benefit the three-quarters of a billion people of the Western Hemisphere.

While finance ministers and others met in December to concentrate on the issue of money laundering, this is the first time since President Clinton convened the Summit of tne Americas in Miami that finance ministers will meet to go over a broad array of topics. I think that it's only fitting that we're here in New Orleans, a city that serves as a gateway for the United States to Latin America and the Caribbean.

If I could put these meetings in context for the United States: Latin America is vitally important to our economic and national security. It is our most natural trading partner because of our physical proximity. Latin America has been deeply involved in economic reforms for quite some time now, a process we both support and encourage, particularly the fact that there is now a consensus regarding the fact that it is the private sector driving economies. Mexico is now coming back, and it is time to press on with reforms. Our meetings this weekend are part of a process of working together, a partnership, and the United States is very supportive of the reform process throughout our region.

Over time, the issues we discuss will have a substantial impact, in our region and in the United States. That is particularly true as we move forward from the important economic steps from last year's Halifax summit -- reforms that will deepen and strengthen financial markets.

Having said that, our aim this weekend is to forge a consensus on and commitment to sound economic policies to sustain growth, raise savings rates and strengthen the now-central role of the private sector. Moreover, I believe we will see emerging a shared vision of ways to develop, liberalize and integrate the financial markets of our Hemisphere, which are critical to supporting and sustaining growth.

RR-1076

(more)

Additionaly, we have put the issue of fighting financial crime on our agenda. Important progress was made last year in Buenos Aires on money laundering, and we want to build upon that momentum so ministers can further advance this issue within their own countries. Money laundering is not just an issue to be handled by justice ministers. It has enormous repercussions for economies, the private sector and governments, and finance ministers are rightly focussing on the issue.

As you know, there has been signficantly greater attention paid to issues surrounding the international economy and global financial markets following the problems Mexico experienced last year. The United States has pursued follow-on measures in a number of fora, and these issues will arise this weekend as well. The Summit of the Americas created a Committee on Hemispheric Financial Issues which has been working at the deputy minister level in recent months to develop suggestions for the ministers. One of my expectations is that the New Orleans Ministerial will institutionalize the process of economic cooperation -- the partnership now operating in our region and being developed within that committee.

The Summit of the Americas set in motion a process which over the long term will make an important contribution to improving lives throughout the Western Hemisphere -- from negotiating a free trade agreement less than a decade from now, to creating the conditions for sustained growth and addressing the critical problem of income inequality and poverty

The New Orleans ministerial holds important benefits for Americans. The benefit for Americans of stronger growth in Latin America will be greater exports, which will in turn mean more jobs and higher living standards here in the United States. And growth in Latin America also will contribute to our national security.

Just as Miami has become synonymous with a new commitment in this Hemisphere to better economic conditions for our people, I believe New Orleans will become synonymous with turning the vision of the Summit of the Americas into a reality that draws our region closer together and brings the benefits of economic growth not just to the citizens of the United States but to every person in this Hemisphere.

Thank you.

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EMBARGOED UNTIL 2:30 P.M.
May 17, 1996

CONTACT: Office of Financing
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately $19,250 million of 52-week Treasury bills to be issued May 30, 1996. This offering will provide about $675 million of new cash for the Treasury, as the maturing 52-week bill is currently outstanding in the amount of $18,580 million. In addition to the maturing 52-week bills, there are $26,508 million of maturing 13-week and 26-week bills.

Federal Reserve Banks hold $12,485 million of bills for their own accounts in the maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $6,916 million of the maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $840 million of the maturing 52-week issue.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D.C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights.

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Attachment

RR-1077

HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS TO BE ISSUED MAY 30, 1996

May 17, 1996

Offering Amount . . . . . . $19,250 million

Description of Offering:

Term and type of security .	364-day bill
CUSIP number	912794 2Q 6
Auction date	May 23, 1996
Issue date	May 30, 1996
Maturity date	May 29, 1997
Original issue date	May 30, 1996
Maturing amount.	$18,580 million
Minimum bid amount	$10,000
Multiples	$1,000

Submission of Bids:

Noncompetitive bids . . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids

Competitive bids . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position are $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . Prior to 12:00 noon Eastern Daylight Saving time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving time on auction day

Payment Terms . . . . Full payment with tender or by charg to a funds account at a Federal Reserve bank on issue date

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ADV 11 A.M. EDT
Remarks as prepared for delivery
May 16, 1996

STATEMENT OF TREASURY SECRETARY ROBERT E. RUBIN INFLATION INDEXED BONDS PRESS CONFERENCE

Helping the economy and raising incomes requires increasing productivity, and the saving rate is central to that objective. The initiative we are announcing today has the potential of raising our national saving rate as well as reducing the cost of capital to the federal government. Today we are announcing our intention to issue securities that will offer investors protection against inflation. Americans' retirement savings in their pension plans or their own IRAs can have inflation protection, which can help ensure their retirement security.

The Treasury Department intends to offer inflation protection bonds as part of our ongoing program of debt finance. Each year the value of the security will keep pace with inflation. The minimum denomination we propose is $1,000 -- well within the reach of many savers. Individuals can buy them from brokers, directly from the Treasury department through TREASURY DIRECT, and through mutual funds and other intermediaries. Once the program is established, we expect to add inflation protection securities to the savings bond program as well.

One type of indexed bond we are considering would work this way: Invest $1,000, for example, on January 1st, and if inflation is 3 percent over the year, the security will be valued at $1,030 at the end of the year. Let's say the interest or coupon rate is also 3 percent. At that point, the security will be paying 3 percent interest on the higher value. And that will continue on through maturity. We're looking at 10-year or 30-year maturities. If someone bought a $1,000 10-year security for their child's college education, and inflation averaged 3 percent, they would receive almost $1,350 back from the Treasury, and the security would have been paying interest for a decade. If inflation is less, the payout will be lower, and if inflation is higher, the payout will be higher.

We are also considering two other structures -- a zero-coupon inflation-protection bond, and an inflation-protection bond that would include periodic payments of interest and principal. Further details on these are in the Advanced Notice we are releasing.

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http://www.ustreas.gov

We think the kinds of investors who will be most interested in these securities will be individual Americans saving for their retirement or for other long term purposes, including their children's education. In addition, financial institutions such as mutual funds, insurance companies and pension funds that help individuals save should be interested in these securities.

We believe these bonds will offer savers value-added in the form of protection against inflation, plus a real rate of return backed by the full faith and credit of the United States, and in return for offering that value-added, over time the cost of financing to the federal government will be lower than it otherwise would be.

Our plans are at an early stage, and I cannot tell you today precisely when the first quarterly auction could occur. As someone with extensive experience in securities matters, I know that bringing a new product to market takes time and it doesn't happen overnight. But I believe that in time this will become a well-used program that Americans will value as a savings vehicle for retirement, education and other long-term needs, and as a consequence the markets in these securities will grow in depth and breadth.

The Treasury Department has through its history focused on the most cost-effective ways to finance the federal debt. If you recall, in 1993 Treasury changed the maturity mix of government securities, something that was initially looked on with some skepticism, but which since has won considerable praise and is saving the taxpayers $7 billion. And today, we are announcing the intention to issue inflation protected bonds as a further step in this direction, as well as a step we believe can help promote savings in the country.

There are a number of decisions which must be made before the first securities are issued. One of the issues to be resolved is what inflation index to use. At the moment, the four we are examining most closely are the Consumer Price Index for Urban areas, the Core CPI and the Employment Cost Index, all calculated by the Bureau of Labor Statistics at the Labor Department, and the GDP deflator, calculated by the Bureau of Economic Analysis at the Commerce Department.

We are asking in the Federal Register for public comments on the proposal. In addition, we want to go out and talk with investors and dealers who may have an interest in these securities. Accordingly, we plan to hold a series of investor meetings in Washington, New York, Chicago, Boston, San Francisco, Tokyo and London this month and next to gather investor comments.

This is a common sense approach to government and an excellent example of government reinvention -- protecting Americans from inflation with an innovative investment method, and saving them money as taxpayers by holding down borrowing costs.

Thank you.

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FOR IMMEDIATE RELEASE
May 16, 1996

Contact: Jon Murchinson
(202) 622-2960

TREASURY INTENDS TO ISSUE INFLATION-PROTECTION SECURITIES

Secretary Robert E. Rubin announced Thursday that the Treasury Department intends to issue securities that provide protection against inflation as a multi-year experiment.

Inflation-protection securities are designed to strengthen national savings by offering Americans an investment that guarantees a return in excess of inflation. These securities will be available in denominations as low as $1,000 in order to make them available to individuals saving for retirement, their children's education and other long-term goals. Individuals on fixed-incomes seeking to protect the real return on their investments, pension funds and insurance companies are also potential investors in inflation-protection securities. It is anticipated that all taxpayers will benefit as these securities are expected to reduce Treasury's financing costs.

The return on the new securities will be linked to inflation in prices or wages and carry longer term maturities of 10 or 30 years. Treasury is considering using various measures of inflation including the Consumer Price Index for All Urban Consumers (CPI-U), the core CPI (CPI-U, excluding food and energy), the Employment Cost Index, which are all published by the Bureau of Labor Statistics of the Labor Department, and the GDP deflator published by the Bureau of Economic Analysis of the Commerce Department. Treasury is also examining several different structures for the new securities. These include securities that would provide some current income through two different structures and additionally a zero-coupon inflation-protection security that would eliminate reinvestment risk.

Treasury is seeking comments from all interested parties on a number of the proposed features of inflation-protection securities. With this in mind, the Department will hold meetings with potential investors in Washington, D.C., New York, Boston, Chicago, San Francisco, London and Tokyo to present the details of the proposed security and gather comments and suggestions.

Further details can be found in the Advance Notice of Proposed Rulemaking which is publicly available today and will be published in the Federal Register next week.

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RR-1071

QUESTIONS AND ANSWERS
ON MARKETABLE INFLATION-PROTECTION SECURITIES
May 16, 1996

General Information

Q: Why does the Treasury intend to issue inflation-protection securities?

A: The Treasury intends to issue inflation-protection securities in order to save on interest costs and to expand the menu of financial assets available to investors in U.S. financial markets. The Treasury believes that it would lower the burden of servicing the federal debt by offering investors a security that will not lose value because of inflation. The new security should result in a broader market for Treasury securities and eliminate the need for Treasury to pay investors for assuming inflation risk.

For example, Treasury believes individuals saving for retirement and other long-term goals, like college for their children, could benefit from investing in these securities. Other investors who may find inflation-protection securities filling an investment need include pension plans and insurance companies that offer annuities. In short, the Treasury expects that inflation-protection securities would benefit both taxpayers, by lowering government financing costs, and financial markets generally, by providing investors a useful financial instrument that has not previously been available. Treasury is seeking comment from all interested parties on a number of proposed features of inflation-protection securities.

Q: Why is the Treasury asking for comments concerning inflation-protection securities?

A: The Treasury believes that inflation-protection securities hold a lot of promise as a cost-effective way to borrow. Nevertheless, we realize that this type of security is very different from any other security the Treasury issues. Consequently, we are specifically asking for comments from market makers, potential investors, and other interested persons on the choice of index, the structure of the security, auction technique, offering sizes, and maturities. This is a prudent way to proceed before issuing a completely new security.

Accordingly, we have delivered to the Federal Register an Advance Notice of Proposed Rulemaking on inflation-protection securities, which will be published in a few days and is now publicly available. In this notice, the Treasury asks commenters for advice both on general and highly technical issues concerning inflation-protection securities.

In addition, the Treasury is also planning to hold a series of investor meetings in New York, Washington, D.C., Chicago, Boston, San Francisco, London, and Tokyo on inflation-protection securities in late May and in June. For information about attending these meetings, please contact the Office of Financing, Bureau of the Public Debt, at 202-219-3350.

Other Benefits

Q: Are there other possible benefits to issuing inflation-protection securities?

A: Yes. Inflation-protection securities reduce the sensitivity of the budget to changes in real interest rates by enabling the Treasury to lock in its real financing costs for a relatively long time. Also, the prices at which inflation-protection securities trade in the market may provide information concerning real interest rates and inflationary expectations which monetary policy officials at the Federal Reserve and others would find useful.

Potential Investors

Q: Who does the Treasury anticipate would buy inflation-protection securities?

A: We believe that inflation-protection securities would appeal initially to investors saving for retirement in tax-deferred retirement accounts and to entities such as pension funds whose liabilities are sensitive to inflation. Once the market becomes established, other institutional investors, such as insurance companies, might become potential investors if they begin to market new inflation-linked products, such as an inflation-indexed annuity.

The design of the security and the specific index chosen may affect which potential investors find the security most useful in their portfolios. The Treasury is asking for comment on the choice of index and structure of the security in its Advance Notice of Proposed Rulemaking.

Q: What advantages do inflation-protection securities present to the average investor?

A: For the average investor saving for retirement, inflation-protection securities would present them with the opportunity to invest in an obligation backed by the full faith and credit of the United States Government that guaranteed a return in excess of inflation. We believe that this would be quite attractive.

Q: Why is the Treasury targeting pension and retirement savings?

A: The Treasury believes that the large growth of pension funds and other retirement accounts is a potential source of funding that Treasury should tap. In addition, the large growth in both absolute and relative terms of self-directed retirement accounts, such as IRAs and 401(k)'s, provides a potentially large pool of funds that might invest in these new securities. Individuals saving for their retirement would have available to them for the first time a conservative investment that guarantees them a return above the inflation rate. Also, the Treasury believes that providing an attractive vehicle for retirement savings may encourage Americans to save more for their retirement and help increase the Nation's savings rate.

Q: Does the Treasury intend to offer inflation-protection securities to small investors?

A: Yes. The Treasury plans to offer inflation-protection securities with a minimum denomination of $1000 (value of principal at issuance) and to make them available through TREASURY DIRECT for investors who want to have a direct account with the Treasury.

Structure of Inflation-Protection Securities

Q: Are there other countries which have successfully offered securities linked to inflation?

A: Yes. The most notable examples are the United Kingdom and Canada. The U.K. has successfully offered marketable Index-Linked gilts since 1981, and last year the market value of these securities comprised approximately 15 percent of the total market value of outstanding gilts. The U.K. has saved money by issuing these securities, since the actual rate of inflation has been lower than the difference between the yields on conventional and Index-Linked gilts. Canada began issuing marketable Real Return Bonds in 1991, and currently, the difference between the yields on their conventional and real return bonds is significantly higher than the current inflation rate.

Q: How would the coupon payments and adjustment to principal be calculated for inflation-protection securities?

A: Under one of the structures we are considering, the principal amount of the inflation-protection security would be adjusted for inflation, so that the adjusted value remains the same in constant dollars. For example, if the price or wage index to which the security is linked increases by 3 percent a year after the issue date, the principal amount of the security also increases by 3 percent. The interest paid on the security is a fixed percentage of the current value of the principal.

Q: Have any other countries issued a bond with this structure?

A: Yes. The specific structure outlined in the answer to the previous question and described in more detail in the Treasury's Advance Notice of Proposed Rulemaking is based on the Real Return Bonds issued by Canada. The Canadian bonds are in turn a modification of the Index-Linked gilts issued by the United Kingdom.

Q: Is the Treasury considering other structures for inflation-protection securities in addition to the Canadian model?

A: Yes. We are specifically asking in the Advance Notice of Proposed Rulemaking for interested parties to comment on two alternative structures.

One structure is a zero-coupon inflation-protection security. The Treasury would only make one payment on this type of security, which would be at maturity. This type of security might appeal to investors who need funds at a specific time in the future but do not need current income. For these investors, a zero-coupon inflation-protection security would avoid the need to reinvest coupon payments during the interim.

The second structure for which the Treasury is asking for comment is designed for investors desiring current income. Under this structure, the Treasury would make periodic payments of principal and interest, similar to payments on a mortgage. Ignoring lags in the indexation, each periodic payment would have the same value when adjusted for inflation, though the proportions of each payment representing principal and interest would change. Potential investors in this type of security would include those with a need for current income from their investments.

Measuring Inflation

Q: How would inflation be measured?

A: The Treasury is asking for comments on the most appropriate price or wage index for the new securities. The Treasury is specifically asking for comments concerning the Consumer Price Index, the core CPI (which excludes food and energy prices), the

Employment Cost Index, and the GDP deflator. After careful consideration of all the comments, the Treasury will decide what price or wage index would be the most appropriate to use for measuring inflation for inflation-protection securities.

Q: Will the recently announced changes in calculating the CPI make the Treasury more likely to link the securities to an alternative index?

A: The Treasury has not decided what index to use and is asking for comment from the public on this. The CPI is a possibility. The recent changes that become effective this summer were made to correct a technical problem known as "formula bias." These changes make the CPI a better index and thus do not lessen the possibility that we may decide to link the new securities to it.

Q: If Treasury chooses the CPI index for inflation-protection securities, would it be overpaying investors, since many economists believe that the CPI overstates inflation?

A: No. We do not believe that this would result in the federal government giving investors too good a deal. Even if the CPI overstates inflation, the total interest costs on this security would not be too high. The reason is that the market would take into account the extent to which it is perceived that the CPI overstates inflation in its pricing of the securities and competition in the market for the securities would ensure that the return on the securities would be at an appropriate level.

Q: What if price or wage inflation goes through the roof?

A: If price or wage inflation is very high for one year, or over a longer period, then investors would have the inflation protection they were seeking. The real value of their investment would have been maintained. The federal government would not be substantially more exposed to inflation than it already is. (The large amount of debt that needs to be refinanced each year means that a rise in interest rates, which happens when inflation increases, is reflected in the Treasury's financing costs very quickly.)

Q: What if price or wage inflation is negative?

A: There is a possibility that the federal government could report deflation in prices or wages for any one month, or even over a longer period. In such an economic environment, the nominal return on these securities would decrease, but then all interest rates would be lower. Moreover, if the sum of all the interest payments and the inflation-adjusted principal value at maturity of the inflation-protection security is less than the par value of the note or bond at issuance, the Treasury would make an additional payment at maturity for the difference. We do not expect that such a prolonged decline will occur that this minimum guarantee becomes meaningful.

Changes to the Inflation Index

Q: What happens if the federal agency responsible for issuing the price or wage index changes its methodology for calculating the index?

A: From time to time, federal agencies responsible for calculating the various price and wage statistics revise their methodologies in order to improve the accuracy of the indices. If the revision is made on a forward-going basis and does not affect previously published statistics, the Treasury would use the modified series for future calculations of principal value and interest payments. If the revisions are made on a backward-looking basis, then the Treasury does not intend to use a revised historical series to change its previous calculations of principal value or interest payments. Finally, in the event that the price or wage series is rebased, the Treasury would continue using the price or wage index series with the base year that was used when the security was first issued, as long as that series is still published. The reason for this is to maintain precision in the indexation of the security that may otherwise be lost due to rounding.

Q: What if the price or wage index used for inflation-protection securities is discontinued?

A: If the inflation index for an inflation-protection security is discontinued while that security is outstanding, the Treasury would consult with the federal agency which publishes the index in order for Treasury to select an appropriate substitute price or wage index and methodology for linking the two series. Determinations of the Secretary in this regard would be final. There are no plans to discontinue the indices currently under consideration.

Q: What if the Federal Government starts to publish a new price or wage index that is more accurate or appropriate for inflation-protection securities?

A: The Treasury expects that it would use the new price or wage series for indexing new inflation-protection securities. Outstanding securities would remain indexed to the original price or wage series.

Q: What happens if the federal agency responsible for the price or wage index is late in reporting the index for a given month?

A: If the price or wage index number for a particular month is not reported by the time that it is needed for determining accrued interest, the Treasury Department would announce by the end of the next business day an index number based on the last available twelve-month change in that index. This number would be used for all subsequent calculations and would not be replaced by the actual price or wage index number when it is reported. The Department believes that this calculation would rarely, if ever, be necessary.

Q: Why is it necessary for there to be a lag in the indexation of the security?

A: For an inflation-protection security modeled after the Canadian Real Return Bonds, the Treasury would choose a lag that is sufficient for the market to determine accrued interest on the security on a daily basis. For dates different from the ones for which a reported index number becomes effective, this requires that two index numbers be known so that a linear interpolation can be made between the two most recently published index numbers.

Amount of Issuance

Q: What size of offerings is the Treasury considering at the initial auctions of inflation-protection securities?

A: Because this is a new product, the Treasury plans to proceed cautiously, with initial offerings significantly smaller than the current sizes of Treasury auctions of conventional Treasury securities. We are specifically asking for comment on this subject in the Advance Notice of Proposed Rulemaking.

Maturities Offered

Q: What maturities does the Treasury intend to offer and what would be the size of the initial auction of inflation-protection securities?

A: The Treasury is considering issuing either 10-year inflation-protection notes or 30-year inflation-protection bonds. The Department will consider carefully market comments on the appropriate maturities and sizes of the auctions for inflation-protection securities.

Method of Sale

Q: How would inflation-protection securities be sold?

A: The Treasury would auction inflation-protection securities on a regular quarterly schedule, with both competitive and noncompetitive bidding.

Q: How would the auctions work?

A: The Department is considering offering the inflation-protection notes or bonds through a single-price auction each quarter. (Multiple-price auctions are also a possibility.) Options include two types of single-price auctions where the Treasury asks for bids in terms of real yield to three decimal places. Noncompetitive bids would be accepted up to $5 million. Further details are available in the Advance Notice of Proposed Rulemaking on inflation-protection securities.

Reopenings

Q: Does Treasury plan to reopen an issue of inflation-protection notes or bonds?

A: The Treasury might reopen an issue of inflation-protection securities. However, the flexibility to do this under changing market conditions is conditioned by tax issues involving the original issue discount rules, as is true for other Treasury securities.

Q: If Treasury decides to reopen an issue of inflation-protection securities, how would the Treasury reopening proceed?

A: A reopening would also be accomplished by an auction. For a Canadian-type security, investors would be asked to bid in multiples of $1000 of the original, unadjusted principal value. Treasury would announce the appropriate index ratio by the date of auction, so that investors could make their own calculations to derive the nominal, or current, principal value.

Savings Bonds

Q: Is the Treasury considering offering inflation-protection savings bonds?

A: Yes. The Treasury is considering issuing a new series of U.S. savings bonds that provides individual investors protection against inflation after a market for inflation-protection securities is established and market prices are readily available.

Tax Issues

Q: How would marketable inflation-protection securities be taxed?

A: Many potential investors, such as pension plans, individual retirement accounts (IRAs), and 401(k) plans, do not pay tax on current investment income. For a security structured similarly to the U.K. and Canadian inflation-indexed bonds, other investors would have to include in taxable income both the principal appreciation due to the inflation adjustment and the interest payments accrued or paid during the tax year. Both the appreciation of principal and the interest payments would be treated as interest income. The precise tax treatment in the event the principal decreases because of a decline in the applicable price or wage index has yet to be determined. Other tax details would be announced before the first issue.

Book-Entry System

Q: Would inflation-protection securities be available on the commercial book-entry system operated by the Federal Reserve Banks as the Treasury's fiscal agents?

A: Yes. The inflation-protection securities would be offered only in book-entry form, either through the commercial book-entry system (TRADES) or through TREASURY DIRECT. For a Canadian-type security, the minimum to hold and transfer would be $1000 of original par value; larger amounts would have to be in multiples of $1000.

STRIPS

Q: Would Treasury allow inflation-protection notes or bonds to be stripped through the Treasury STRIPS program?

A: For a Canadian-type inflation protection security, the Treasury would make the inflation-protection securities eligible for stripping on the commercial book-entry system sometime after the program of issuing these securities was initiated. Stripping on the commercial book-entry system would not be possible initially, for operational reasons. Eligibility for stripping might be limited to inflation-protection securities issued after a future effective date.

Inflation-Protection Securities and the Debt Limit

Q: How would inflation-protection securities be treated for the calculation of the debt limit?

A: For Canadian-type inflation-protection securities, at the beginning of every month, Treasury would adjust its calculations for the total debt subject to limit to reflect the appreciation of the principal value of inflation-protection securities due to changes in the applicable price or wage index.

SELECTION OF QUOTES BY GOVERNMENT OFFICIALS, ACADEMIC AND PRIVATE SECTOR ECONOMISTS ON INDEXING TREASURY SECURITIES TO INFLATION

Excerpt from the "Report to the Secretary of the Treasury" from the Treasury Borrowing Advisory Committee of the Public Securities Association, May 3, 1995

"The Committee recognized that there are conceptually sound reasons for believing that the issuance of inflation-indexed debt could lower the cost of borrowing over the longer term. Academic research often cites the existence of some inflation risk premium in the yields on conventional debt that the Treasury might capture through the issuance of inflation-indexed debt. By issuing both conventional and inflation-indexed securities, the Treasury might be able to segment to its advantage the market for its debt."

"The recent and prospective substantial growth in self-directed retirement plans, which to date have evidenced a strong preference for safe, conservative investments, may offer the potential of significant demand for inflation-indexed securities, either in marketable or savings bond forms."

"Defined benefit pension plans might also be a source of demand for inflation-indexed securities. An asset class with an assured real return together, in all likelihood, with low correlations with other standard asset classes is virtually certain to permit attainment of a higher level of 'portfolio optimality' and hence be an attractive investment to defined benefit plans."

Excerpt from May 7, 1995 New York Times Op-Ed Piece by James H. Smalhout of the Hudson Institute

"Indexed bonds deserve a place in America's diversified retirement saving. They could benefit millions of people who otherwise would be left to rely on unduly risky investments to keep up with inflation in their old age."

"Monetarists, like Milton Friedman, favor indexed bonds because they remove the ability of the Government -- the only borrower that can control the rate of inflation -- to repudiate its debts by inflating. And Keynesians, like James Tobin, believe that indexed bonds are much more like real goods than money. By trading indexed bonds, the Fed would have greater power to regulate the pace of the economy."

Excerpt from Statement by Alan Greenspan before the Commerce, Consumer, and Monetary Affairs Subcommittee of the House Committee on Government Operations, June 16, 1992

"The yields on bonds that protect purchasing power could be considered measures of 'real' rates.... For my own part, I am attracted by the prospect of opening a window on the market's view of the path for inflation that potentially could provide readings of price pressures being built into wages and of real interest rates influencing spending decisions."

"A timely and accurate reading on inflation expectations could considerably aid in economic forecasting by casting some light on incipient wage and cost pressures and by helping to divide changes in nominal asset values into their expected real and price components.

"Also, by routinely monitoring the markets for the [indexed and unindexed] debt instruments, the Federal Reserve could extract the market's evaluation of the consequences of policy operations."

"Nonetheless, I am confident that we would make use of new market-based indicators of inflation and real interest rates that would be made available by the issue of indexed bonds. Such measures may not mark the way as unambiguously as promised by their most vocal adherents, but they would help."

Excerpt from Column by Milton Friedman on Purchasing Power Bonds in *Newsweek*, April 12, 1971

"The government, and the government alone, is responsible for inflation. By inflation, it has expropriated the capital of persons who bought government securities -- often at the urging of high officials who eloquently proclaimed that patriotism and self-interest went hand in hand.

"The right way to avoid this disgraceful shell game is for the government to borrow in the form of purchasing power securities. Let the Treasury promise to pay not $1,000 but a sum that will have the same purchasing power as $1,000 had when the security was issued. Let it pay as interest each year not a fixed number of dollars but that number adjusted for any rise in prices."

Excerpts from James Tobin, Chapter 21, *Essays in Economics, Volume 1: Macroeconomics*, (Chicago, Markham Publishing Company, 1971), pages 439-447

"A substantial part of the independence of risk between current debt instruments and capital equity arises from their difference in status with respect to uncertainties of the future purchasing power of money. A purchasing power bond would share the role of capital equity as a hedge against changes in the price level. It would therefore be a much better substitute than existing debt instruments for ownership of capital."

"The government should issue marketable and nonmarketable bonds with purchasing power escalation, principal and interest geared to the Consumer Price index. Marketable bonds of this type would greatly improve the effectiveness of monetary control. The Federal Reserve, by buying or selling these securities, would be dealing in assets much closer to equity capital than conventional public debt instruments. The monetary authorities would thereby gain a much greater leverage over the supply price of capital. At the same time, purchasing power bonds would fill, either directly or through the intermediation of insurance companies and other institutions, a shameful gap in the available menu of financial assets. Savers of limited means and knowledge should not be forced to gamble either on the price level or on the stock market. Since investors will pay the government to avoid such risks, purchasing power bonds would save the taxpayer interest outlays."

Excerpt from an Editorial in the May 27, 1995 Issue of the *Economist*

"So here is a simple idea. Let governments carry more of the inflation risk themselves. That would not only help investors and encourage saving, but also give governments a strong new incentive to keep inflation under control. ...by using [inflation indexed] bonds, governments would strengthen the credibility of their anti-inflationary policies, as it would give them a strong incentive to keep inflation down.... A second advantage of index-linked bonds is that they make it easier for pension funds and other financial institutions to offer long-term inflation-proofed savings products.... Indeed, by offering a guaranteed real return, they might encourage people to put aside more of their own money for retirement, and so help to reduce the crippling -- and unsustainable -- pension burden of governments around the world."

Excerpts from "Fighting Inflation and Reducing the Deficit: the Role of Inflation-Indexed Treasury Bonds," 23rd Report by the House Committee on Government Operations of the U.S. Congress, October 29, 1992

"The Treasury's failure to issue indexed debt during the 1980's cost U.S. taxpayers many billions of dollars, possibly as much as $100 billion."

"On the basis of the foregoing findings, the committee concludes that selective issuance of properly designed indexed debt securities by the U.S. Treasury would materially assist the Federal Reserve in the management of monetary policy and would most probably also reduce Treasury financing costs on the Federal debt. The committee also believes that such a program would produce other substantive benefits for the economy and would contribute generally to economic efficiency, productivity, stability, and equity."

"Moreover, the broad economic benefits of such a program would justify even a modest increase in Treasury financing costs, if a cost increase should result."

"The committee therefore recommends immediate implementation by the Treasury Department of a permanent ongoing program to fund a portion of the Federal debt with indexed debt securities."

Excerpt from article entitled "Benefits and Limitations of Inflation-Indexed Treasury Bonds" by Pu Shen in the *Economic Review of the Federal Reserve Bank of Kansas City*, 1995Q3 issue

"Inflation indexed Treasury bonds would be a valuable innovation in U.S. financial markets, providing benefits to investors, the Treasury, and policy-makers. Not only could they protect both investors and issuers from inflation risk, but they could also save the Treasury interest expense on its debt. Moreover, combined with nominal bonds, indexed bonds would provide policymakers with additional information on real interest rates and inflation expectations. ...On balance, the conclusion reached here is that inflation indexed Treasury bonds could be a valuable addition to the spectrum of Treasury debt instruments."

Excerpts from Article by Alicia Munnell and Joseph B. Grolnic entitled "Should the U.S. Government Issue Index Bonds" in the *New England Economic Review*, September/October 1986

"The conclusion that emerges is that index bonds merit serious consideration as an addition to this nation's arsenal of financial instruments. They would allow people -- particularly older people -- to fully protect themselves against the risk of having their income eroded by inflation. At the same time, government-issued index bonds should neither disrupt financial markets nor substantially affect federal budget financing. In short, these bonds would significantly enhance the array of financial options at virtually no additional cost to the government or the taxpayer."

"Anyone saving for a specific goal, such as purchasing a house or sending children to college, should welcome the opportunity to ensure that such savings will not be eroded by inflation. Other investors may simply prefer the lower guaranteed positive return on index bonds to the risk of losing money on their portfolios.

"Moreover, in the United States there may well be a niche for index bonds that has not been adequately explored -- namely, the financing of fully indexed annuities for retirees. These annuities could play an important role in protecting elderly people against the erosion of their pension income during their retirement years."

"In summary, the long-run cost implications support the case for index bonds: errors in investors' expectations should cancel out and borrowing costs should be reduced by the elimination of the inflation-risk premium. The fact that the government absorbs the risks of unanticipated price changes need not be considered a significant burden. The government's nominal outlays would become less predictable, but its real outlays would become more so. Since government revenues are quite responsive to inflation, indexing the debt might reduce total budget uncertainty."

Excerpt from Column in the Wall Street Journal by Financial Consultant Ernest J. Oppenheimer, February 28, 1975

"Thus the most important gain is intangible yet very real, namely the restoration of justice to the dealings between the government and its people. The past 30 years have been grossly unfair to all those who have been prudent and saved their money. Their losses have been the gains of the profligate spenders, notably the government.

"...The procedure of linking government securities to rates of inflation is so simple and sound that one may wonder why it has not been implemented before in this country. The British classical economist Alfred Marshall, in fact, pointed out about 100 years ago that money alone cannot fulfill the function of a stable long-term standard of value. He recommended a procedure analogous to the one suggested here as an essential step for preserving the free enterprise system. Thirty years of chronic inflation have demonstrated beyond doubt the validity of Marshall's analysis."

Excerpt from Paper by Stanley Fischer in the Journal of Political Economy, 1975, Vol. 83, pp. 509-534

"The non-issuance of index bonds in the United States by either the federal government or corporations is something of a mystery.... The existence of such an asset would be particularly desirable on distributional grounds, since it would enable consumers to provide themselves with an assured standard of living for their retirements. Further, since there is an evident demand for the hedge provided by such bonds, they could be sold at a real interest rate below that on nominal bonds, so that no real costs to the Treasury would be involved in the substitution of some indexed bonds for outstanding nonindexed bonds."

Excerpt from September 29, 1995 Wall Street Journal Op-Ed Piece by Professor Robert J. Barro, Harvard University

"Long-term indexed debt avoids the sensitivity of real financing costs to shifts in inflation (the problem with long-term nominal bonds) and also eliminates the sensitivity to shifts in real interest rates (the problem with short-term nominal and real bonds).

"Indexed bonds are a win-win proposition. The U.S. government should introduce them now, when inflation is not a problem, rather than waiting for the next inflation crisis."

Testimony of Michael J. Boskin, Chairman, President's Council of Economic Advisers, Before the House Subcommittee on Commerce, Consumer and Monetary Affairs, June 25, 1992

"Long-term indexed instruments would facilitate the creation of privately issued liabilities that are fully indexed. For instance, if indexed bonds were generally available, then financial services companies would be better able to offer real annuities which would guarantee retirees a real income stream."

"Indexed securities would also prove valuable as an additional guide to monetary policy decisionmakers.... An active market in indexed bonds of different maturities alongside nominal bonds of the same maturities would add a much more direct and less noisy measure of expectations about inflation, which would be a very useful tool for policymakers."

September 21, 1995 London Times Column Entitled "We Want More Indexed Gilts" by Samuel Brittan

"It is not only the government that could benefit from more indexed bonds. When I used to ask people in pension funds why private-sector pensions were not indexed for inflation, the reply used to be that they had no inflation-proofed asset to guarantee such undertakings. 'You tell your friends in the [British] Treasury to issue indexed gilts and then come back to us about indexed pensions.' Well, they have and I have. Pension schemes might not be able to afford pensions which are both inflation-proofed and linked to final salary, but members could be given a choice."

"Indexed bonds should be of interest not only for the information they yield on inflation expectations when compared with conventional bonds. They should also be useful in themselves as a direct measure of the real rate of interest. Moreover, to the extent that there is a single international capital market, they should provide an estimate of the world real rate of interest rather than that of any particular country."

Excerpt from Statement by Senator Dan Quayle in the Congressional Record, May 7, 1985

"Mr. President, today Mr. Trible and I are introducing the Price Indexed Bonds Act of 1985.... The Price Indexed Bonds Act of 1985 would obligate the Department of the Treasury to issue, within 90 days of enactment, a series of Treasury securities indexed to the consumer price index."

"Mr. President, in the context of the Congress' struggle to find ways to cut Federal spending I am tempted to advocate this bill solely as a means of reducing Federal spending with no offsetting pain.... The bottom line is that we can expect the interest costs associated with price indexed bonds to be about 20 to 40 percent less than under conventional bonds. Moreover, this savings is practically a free lunch."

"Price-indexed bonds will be a valuable new financial instrument -- of especially great service to and in great demand by the elderly and others looking for a place to safeguard their real earnings against the ravages of inflation.... For instance, the young couple saving for their child's education might prefer an inflation-proof asset over a more inflation sensitive risk, such as conventional bonds, even if the former paid a lower yield. Likewise, the middle-aged couple usually saves prudently, rather than invests speculatively, for retirement."

"Price indexed bonds would eliminate one of the greatest incentives to the Federal Government to increase inflation....

In effect, the Government expropriated billions of dollars from investors in the sixties and seventies by selling bonds with nominal fixed rates and then debasing the debt by inflating the currency. This is the utmost in moral hazard."

Excerpt from "The Concept of Indexation in the History of Economic Thought," *Economic Review*, Federal Reserve Bank of Richmond, November/December 1974

"The practice of linking contractual payments to a specific price has a long tradition extending back at least to Elizabethan times. Thus, William Stanley Jevons remarks that during the reign of Elizabeth I, the colleges of Oxford, Cambridge, and Eton were required by law to lease out their lands for corn rents, i.e., variable money rents linked to the price of corn."

Excerpt from Note by R.A. Musgrave and G.L. Bach in the American Economic Review, December 1941, pp. 823-845

"Stable purchasing power bonds may prove a helpful contribution to the Treasury's endeavor to restrict the net income contributing effects of defense financing, since the offering of such bonds promises to increase the extent to which Treasury borrowing may syphon funds from the active income stream into defense outlays."

Excerpt from Comments Delivered by Stanley Fischer, Chief Economist at the IMF, a Conference on Inflation-Indexed Bonds at the National Press Club on April 21, 1995

"Just do it."

4810-39-W

DEPARTMENT OF THE TREASURY

Office of the Assistant Secretary for Financial Markets

31 CFR Part 356

Amendments to the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes and Bonds

AGENCY: Office of the Assistant Secretary for Financial Markets, Treasury.

ACTION: Advance Notice of Proposed Rulemaking.

SUMMARY: The Secretary of the Treasury (Secretary) is authorized under Chapter 31 of Title 31, United States Code, to issue United States obligations and to offer them for sale under such terms and conditions as the Secretary may prescribe. The Department of the Treasury (Department or Treasury) is issuing this Advance Notice of Proposed Rulemaking to solicit comments on the design details, terms and conditions, and other features of a new type of marketable book-entry security the Treasury intends to issue, inflation-protection notes or bonds, with a return linked to the inflation rate in prices or wages. The Treasury is specifically interested in comments concerning choice of index, structure of the security, auction technique, offering sizes, and maturities. The Treasury also invites comments on other specific issues raised, as

well as on any other issues relevant to the new type of security.

DATE: Comments must be received on or before (insert date 30 days after publication in the Federal Register).

ADDRESSES: Comments should be sent to: the Government Securities Regulations Staff, Bureau of the Public Debt, 999 E Street, N.W., Room 515, Washington, D.C. 20239. Comments received will be available for public inspection and copying at the Treasury Department Library, Room 5030, Main Treasury Building, 1500 Pennsylvania Avenue, N.W., Washington, D.C. 20220.

FOR FURTHER INFORMATION CONTACT: Norman Carleton, Director, Office of Federal Finance Policy Analysis, Office of the Assistant Secretary for Financial Markets, at 202-622-2680. In addition, the Treasury plans to hold a series of investor meetings in New York, Washington, D.C., Chicago, Boston, San Francisco, and possibly other cities in late May and in June 1996 to discuss the new securities, answer questions, and solicit comments. To request information about attending any of these meetings, contact the Office of Financing, Bureau of the Public Debt, at 202-219-3350.

SUPPLEMENTARY INFORMATION: The Treasury Department intends to issue a new type of marketable book-entry security with a nominal return linked to the inflation rate in prices or wages, as officially published by the United States Government. The Treasury is considering various indices for this purpose, including the Consumer Price Index for All Urban Consumers (CPI-U) published by the Bureau of Labor Statistics (BLS) of the Department of Labor, the core CPI (CPI-U, excluding food and energy, as published by the BLS), the Gross Domestic Product (GDP) deflator published by the Bureau of Economic Analysis (BEA) of the Department of Commerce, and the Employment Cost Index--Private Industry (ECI) also published by BLS. Through this notice, the Treasury is soliciting comments on the design details of the planned inflation-protection securities and on which index (those mentioned above or another index) would be most likely to result in the broadest market for the new securities. At the end of this notice is a hypothetical term sheet with proposed formulas applicable to one of the structures being considered for the new security.

This advance notice of proposed rulemaking is not an offering of securities, and any of the currently contemplated features of inflation-protection securities that are described in this notice may change. The terms and conditions of particular securities that may be offered will be set forth in the Uniform Offering Circular (31 CFR Part 356) and the applicable offering announcement.

The Department intends to issue inflation-protection notes or bonds in order to save on interest costs and to broaden the types of debt instruments available to investors in U.S. financial markets. Because the Treasury, rather than the investor, would bear the inflation risk on an inflation-protection security, the Department expects that the prices at which it would sell this new type of security would capture some or all of the inflation risk premium charged by investors on conventional Treasury securities. In other words, investors should be willing to pay extra for a security on which the issuer, rather than the investor, bears the risk of higher than expected inflation. Consequently, the expected interest costs to the Treasury of inflation-protection securities should be lower than those on conventional Treasury securities.

In addition, inflation-protection securities may prove to be attractive investments to investors who do not now invest in Treasury securities to any significant extent. For example, certain pension funds that currently invest in bonds other than Treasury securities because of the higher yields on private fixed-income securities may find Treasury inflation-protection notes or bonds useful to include in their portfolios. The new securities would offer explicit inflation protection to investors, which has heretofore been unavailable in a Treasury debt instrument. This inflation protection could prove attractive for investments for retirement. Also, because the path of changes in market prices of inflation-protection securities would be markedly different from that of the market price of conventional fixed-income instruments or equity investments, inflation-protection securities could be useful for achieving some portfolio diversification. This broadening of the market for Treasury securities should also result in lower overall interest costs for the Treasury over time.

Indexation Methodology. A design of the inflation-protection securities that is currently being considered is modeled, with some modifications, on the Real Return Bonds currently issued by the Government of Canada. The Department is soliciting comments about this choice of model and the specific details described below and in the hypothetical term sheet, as well as the formulas in the appendix.

For this particular structure, the principal amount of the inflation-protection security is adjusted for inflation, so that the adjusted value remains the same in constant dollars. This is achieved by multiplying the principal value of the security at issuance by an index ratio. The index ratio is the reference index number applicable for the valuation day divided by the reference index number applicable for the issue date.

Because the reporting of a monthly price or wage series index number for a particular month by necessity takes place after the month has ended and because the market needs to determine accrued interest on a daily basis, there has to be a lag in the indexation of the security. For this structure, if it is based on a monthly index that is reported in the following month, the indexation of the principal on the first day of any month is based on the index number for the third preceding month. For example, the index number applicable to the first day of December is the one reported for September. For other days of the month, a linear interpolation is made between the index number for the third preceding month and the one for the second preceding month (in this example, October). Using the third preceding month as the reference month is the minimum lag that enables interpolation between the index number for that month and the following month.

Under this structure, interest is payable semiannually. Interest payments are a fixed percentage of the value of the inflation-adjusted principal, in current dollars, for the date on which it is paid.

Alternative Structures. The Treasury has given the most study to the Canadian model for inflation-protection securities, which in turn is a modification of the United

Kingdom's index-linked gilts. However, alternative structures are possible, and the Treasury is asking for comment on whether alternative structures might be more desirable for U.S. financial markets.

One alternative structure is a zero-coupon inflation-indexed security. This type of security could prove to be quite volatile in price, but, if held to maturity, this structure would provide the greatest certainty about its return, since there would be no reinvestment risk associated with coupon payments.

In addition to general comments concerning the market for a zero-coupon inflation-protection security, the Treasury is soliciting comments about the use for this structure of an index, such as the GDP deflator, that is subject to retroactive revisions. Since the Treasury would only make one payment on a zero-coupon inflation-protection security, revisions would be less of a problem from the cash flow perspective than with a security that pays interest every six months. However, the use of an index that is revised retroactively may cause some impediments to trading the security and would complicate the applicable tax rules.

Another quite different structure is an inflation-protection security that pays out principal and interest at periodic intervals. Ignoring the lags, under this structure, each payment is equal in real terms, but the proportion of each payment representing principal and interest changes. In other words, this structure is similar to the cash flows of a home mortgage, and, more specifically, a price level adjusted mortgage. This structure may be appealing to investors desiring a flow of periodic payments that stay constant in real terms. It is also possible that this structure may be more appealing than a Canadian-type security to taxable investors concerned about receiving sufficient cash payments from the security to satisfy the tax on the income from the security.

Price or Wage Indices. The Treasury is requesting comments on which price or wage index is likely to result in the broadest market for inflation-protection securities. Specifically, the Department is considering (1) the CPI-U, (2) the core CPI, (3) the GDP deflator, and (4) the ECI. The Treasury also requests comments on whether another index would serve the desired purpose better.

The CPI-U is the best known measure of inflation, and, as such, is a logical candidate for indexing the securities. However, the CPI-U may not be the best index for certain investors. For example, pension funds' liabilities are more sensitive to change in wages than to changes in consumer prices.

The core CPI is a less volatile index than the CPI-U, and this may be appealing to investors. However, while energy and food prices eventually influence other prices, the core CPI could be criticized for not completely reflecting any trend that may develop in prices in the energy and food sectors.

The GDP deflator is a broad measure of price trends in the economy. As noted above, its use may be better suited to a zero-coupon inflation-protection security than to a note or bond paying semiannual coupons, because the GDP deflator, unlike the other indices under consideration, is subject to periodic revision.

Periodic revisions of an index pose three potential problems. The first is the need for finality in determining payment amounts. Second, the change in an index for a given period could be based on an index number for a previous period that has since been revised. An indexation methodology designed to correct for revisions in previous values of the index would create additional complexity. Finally, even for a zero-coupon security, revisions may cause complications in the applicable tax rules throughout the life of the security. Revisions may be less of a problem for a security that makes only one payment at maturity than for one that pays interest every six months.

The ECI may appeal to pension funds, whose liabilities are more linked to wage, rather than price, inflation. In this regard, commenters are also asked to address whether the total compensation or the wages and salaries series of the ECI would be the most useful. Since the ECI is a quarterly index, the precise indexation methodology and the formulas in the appendix, which assume a monthly index, would need to be modified.

The Treasury is also requesting comments on whether a seasonally adjusted or non-seasonally adjusted series would be preferable. Seasonal adjustment smoothes out fluctuations, but seasonal factors are subject to revisions for a considerable period of time.

Calculation of the Price or Wage Series. From time to time, government statistical agencies, such as the BLS and the BEA, revise their methodology for calculating indices in order to improve their accuracy. Such revisions on a forward-going basis may affect the inflation rate as measured by the index and, therefore, the return to investors.

For a Canadian-type or level real payment inflation-protection security, revisions of a price or wage index number that has previously been reported, however, would not be used for calculations of principal value or interest payments. This is in order for there to be finality in determining payment amounts.

When a price or wage index is rebased to a different year, the Treasury would use the price or wage index series with the same base year(s) as when the security was first issued, as long as that series continues to be published. The reason for this is to maintain precision in the indexation of the security that may otherwise be lost due to rounding, a problem that becomes more acute if the price or wage index has increased significantly from the original base year(s) to the new one. The Department is specifically soliciting comments on this point.

In the case of an index series reported on a monthly basis in the following month, the Department is considering the following procedure for the Canadian-type security if the index is reported late. If the index number for a particular month is not reported by the last day of the following month, the Department would announce by the end of the next business day an index number based on the last twelve-month change in the index available. This number would be used for all subsequent calculations and would not be replaced by the actual price or wage index number when it is reported. Since the Treasury may use a price or wage series that is not seasonally adjusted, the Treasury welcomes comments on this procedure. The Department believes that this calculation would rarely, if ever, be necessary.

If the price or wage index for an inflation-protection security is discontinued while that security is outstanding, the Treasury would consult with the agency responsible for the index, and, based on such discussions, the Treasury would select an appropriate substitute index and methodology for linking the two series. Determinations of the Secretary in this regard would be final.

Finally, if the Federal Government commences publication of a new version of the index that is more appropriate for indexation than the one originally chosen, the Treasury expects it would then use the new version for indexing new inflation-protection securities. Concerning the introduction of a new version, the Treasury is requesting commenters to address whether the Treasury should also index outstanding inflation-protection securities to the new version starting from its introduction or whether outstanding securities should remain indexed to the original series as long as that series continues to be published.

Auction Technique. The Department is considering offering inflation-protection securities through a single-price auction. The exact type of auction has yet to be determined, and the Department is particularly interested in input from potential auction participants, as well as others, on this subject.

For a Canadian-type inflation-protection security, options include two types of single-price auctions where the Treasury asks for bids in terms of real yield to three decimal places. In the first case, the highest accepted yield would become the coupon, and the inflation-protection note or bond would be issued at par. In the second case, the Treasury would set a coupon after the auction in an increment of 0.125%, and the price of the security would be determined by the formulas in the appendix.

Also, the Treasury could announce a coupon on the security and accept bids in terms of price. However, this option runs counter to the Department's auction practice for its conventional Treasury securities, and, at least initially, it may be difficult to judge what would be the appropriate coupon.

Noncompetitive bids up to $5 million per bidder would be permitted for inflation-protection securities. In order to ensure that enough competitive bids are accepted to price the security fairly, the Treasury is considering whether all or part of the noncompetitive bids should be filled by issuing more securities than the originally announced public offering amount. The Department is requesting comments on this issue.

Given the pricing uncertainty inherent in any new type of security, the Treasury is requesting comments on whether the Treasury should announce prior to a single-price auction of an inflation-protection security that it retains, and may exercise, the option to award an amount greater or less than the announced public offering amount. The reason for awarding less stems from the use of the single-price auction technique and the unique nature of this new instrument. If there were an extremely long tail between the yield necessary to sell, for example, 95 percent of the announced size and the remaining 5 percent, awarding less would avoid issuing the security with an unreasonably high real yield. (In any case, the Secretary reserves the right, in any auction, to award an amount of securities greater or less than the offering amount. See 31 CFR 356.33)

The Department also welcomes comments on whether a single-price or a multiple-price auction would be more appropriate for inflation-protection securities.

The Treasury is also requesting commenters to address whether any of the auction rules for conventional Treasury securities are inappropriate for an offering of inflation-protection securities and specifically whether there should be a limit to the amount recognized at a single yield from a bidder or the amount awarded to a single bidder in an auction of inflation-protection securities.

Frequency. The Treasury contemplates issuance of inflation-protection securities on a regular quarterly cycle.

Reopenings. The Treasury could reopen an issue of an inflation-protection note or bond, though the flexibility to do this under changing market conditions is conditioned by tax issues involving the original issue discount rules that have yet to be decided. A reopening would also be accomplished by an auction. The Department welcomes comments on whether bids on an issue that is being reopened should be in terms of real yield or price.

For a Canadian-type security, amounts bid at an auction for a reopened inflation-protection security would be in terms of original par amount, not the inflation-adjusted par amount. The Treasury would announce prior to the auction the index ratio necessary to convert the original par amount to the inflation-adjusted par value for the settlement date. This means that if the index ratio for the settlement date is 1.03, a $1,000 bid amount would translate into $1,030 inflation-adjusted par value. The Treasury is requesting comments on this procedure.

Also, the Treasury is requesting comments on whether reopenings of an issue would be important for market liquidity, or whether they would act as a constraint on prices, given the possibility of additional supply of the security in the next quarter.

Maturities. The Department's current thinking is that 10-year inflation-protection notes or 30-year inflation-protection bonds would be the most appropriate maturity sectors for this instrument. The Treasury is soliciting comments on which maturity sectors would be most in demand for inflation-protection notes or bonds.

Amounts. The Department is requesting comments on the appropriate size of the initial auctions of inflation-protection notes or bonds. The Treasury intends to increase the size of the auctions from the initial levels over time.

Book-Entry Form and Systems. The inflation-protection securities would be offered only in book-entry form. They would be issued and maintained in the commercial book-entry system which is operated by the Federal Reserve Banks, acting as fiscal agents for the Treasury Department. The Treasury also would make inflation-protection securities available through TREASURY DIRECT, a system designed primarily to enable investors who do not intend to trade Treasury securities to hold ~~their~~ book-entry securities directly on the records of the Treasury.

Eligible amounts for holding and transferring would be in multiples of $1000 of original par value for a Canadian-type inflation-protection security. The Treasury is soliciting comments on any operational issues arising from the fact that the amount of an inflation-protection security held and transferred on the book-entry systems would be referred to in terms of the original par value, not the inflation-adjusted value.

Treasury Tax and Loan Accounts. The Treasury intends to make inflation-protection securities eligible as collateral for Treasury Tax and Loan Accounts. Valuation for collateral purposes would depend on the precise structure of the security.

Stripping. For a Canadian-type security, the Treasury would make inflation-protection securities eligible for stripping on the commercial book-entry system at some point after issuance of the new security had begun. This would not be operationally possible initially. Eligibility for stripping might extend only to inflation-protection securities issued after a future effective date.

Taxation. In general, a payment on an inflation-protection security or an increase in the principal amount of the security attributable to the inflation adjustment would be includible in taxable income for the year in which it occurs and would be treated as interest income. Interest payments on inflation-protection securities generally would have to be included in the owner's taxable income when received or as accrued, depending on the owner's method of accounting for tax purposes. For a zero-coupon inflation-protection security, the difference between the issue price and the original par amount would be interest that the holder would include as taxable income on a constant yield basis. The precise tax treatment in the event the principal decreases because of a decline in the price or wage index has yet to be determined. Other tax issues, including the reporting of income on the securities by brokers and other intermediaries (*i.e.*, custodians), also remain to be determined. Relevant tax issues would be announced before the first issue.

Minimum Guarantee. If the sum of all the interest payments and the inflation-adjusted principal value at maturity of the inflation-protection note or bond is less than the par value of the note or bond at issuance, the Treasury would make an additional payment at maturity for the difference.

After receipt and consideration of responses to this advance notice of proposed rulemaking, the Department intends to issue a final rule amending 31 CFR Part 356, "Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds" (Uniform Offering Circular). Because the rule would relate to public contracts and procedures for United States securities, the notice, public comment, and delayed effective date provisions of the Administrative Procedure Act are inapplicable, pursuant to 5 U.S.C. 553(a)(2).

HYPOTHETICAL TERM SHEET

Note: This hypothetical term sheet assumes that an inflation-protection note or bond would be linked to a price or wage index reported monthly and that the index number for each month is reported the following month.

ISSUER

United States Treasury

ISSUE

Inflation-protection note or bond

PAYMENT DATES

Inflation-adjusted principal on the security will be paid on the maturity date as specified in the offering announcement. Interest on the security is payable on a semiannual basis on the interest payment dates specified in the offering announcement through the date the principal becomes payable. In the event any principal or interest payment date is a Saturday, Sunday or other day on which the Federal Reserve Banks are not open for business, the amount is payable (without additional interest) on the next business day.

MATURITIES

Ten or thirty years.

INDEXING METHODOLOGY

To calculate the value of the principal for a particular valuation date, the value of the principal at issuance is multiplied by the index ratio applicable to that valuation date. Semiannual coupon interest is determined by multiplying the value of the principal at issuance by the index ratio for the coupon payment date by one-half the stated rate of interest.

INDEX RATIO

The index ratio for any date is the ratio of the reference index number (reference INUM) applicable to such date to the reference INUM applicable to the original issue date.

REFERENCE INUM The reference INUM for the first day of any calendar month is the INUM for the third preceding calendar month. (For example, the reference INUM for December 1 is the INUM reported for September of the same year, which is released in October.) The reference INUM for any other day of the month is calculated by a linear interpolation between the reference INUM applicable to the first day of the month and the reference INUM applicable to the first day of the following month.

Any revisions that the agency responsible for the index makes to any INUM that has been previously released shall not be used in calculations of the value of Treasury inflation-protection securities.

In the case that the INUM for a particular month is not reported by the last day of the following month, the Treasury will announce an index number based on the last year-over-year inflation rate as measured by the chosen index. Any calculations of the Treasury's payment obligations on the inflation-protection security that need that month's INUM number will be based on the index number that the Treasury has announced.

If the applicable price or wage series is discontinued during the period the inflation-protection security is outstanding, the Treasury will, in consultation with the agency responsible for the series, determine an appropriate substitute index and methodology for linking the discontinued series with the new price or wage index series. Determinations of the Secretary in this regard will be final.

STRIPS Eligible for the STRIPS program at a future date.

TAXATION

Appreciation of the principal will be taxed as interest income in the period the appreciation occurs. Interest payments will be includible as interest income when received or as they accrue, depending on the taxpayer's method of accounting. Other tax details remain to be determined.

AUCTION TECHNIQUE

Single-price auction. Options:

(1) Bidders bid for coupon, with bids expressed to three decimal places. The highest accepted yield becomes the coupon. Security is issued at par.

(2) Bidders bid real yield, with bids expressed to three decimal places. Coupon is set near the highest accepted real yield in increments of 1/8 of 1 percent. Price is determined by formula in the appendix using the highest accepted yield.

(3) Before the auction Treasury announces a coupon, securities are issued at lowest accepted price.

MINIMUM GUARANTEE

If the sum of all the interest payments and the inflation-adjusted principal is less than the par value of the security at time of issuance, the Treasury will pay an additional sum at maturity equal to the difference.

MINIMUMS AND MULTIPLES TO BID, HOLD, AND TRANSFER

The minimum to bid, hold, and transfer is $1000 original principal value. Larger amounts must be in multiples of $1000.

Appendix - Formulas

I. Reference INUM:

$$\text{Ref INUM}_{\text{Date}} = \text{Ref INUM}_{M} + \frac{t-1}{D}[\text{Ref INUM}_{M+1} - \text{Ref INUM}_{M}]$$

II. Index Ratio:

$$\text{Index Ratio}_{\text{Date}} = \frac{\text{Ref INUM}_{\text{Date}}}{\text{Ref INUM}_{\text{Base}}}$$

III. Real Price:

A. No initial partial semiannual coupon period:

$$RP = (C/2)a_{\overline{n}|} + 100v^{n}$$

B. With initial partial semiannual coupon period:

$$RP = \frac{C/2 + (C/2)a_{\overline{n}|} + 100v^{n}}{1 + (r/s)(i/2)} - [(s-r)/s](C/2)$$

IV. Settlement amount, including accrued interest, for $100 Original Principal:

$$SA = A + [\text{Index Ratio}_{\text{Date}} \times RP]$$

V. Accrued Interest:

$$A = [(s-r)/s] \times (C/2) \times \text{Index Ratio}_{\text{Date}}$$

VI. INUM not reported timely for month M:

$$\text{Ref INUM}_{M} = \text{INUM}_{M-1} \times [\frac{\text{INUM}_{M-1}}{\text{INUM}_{M-13}}]^{\frac{1}{12}}$$

Generalizing for last reported INUM issued N months prior to month M:

$$\text{Ref INUM}_{M} = \text{INUM}_{M-N} \times [\frac{\text{INUM}_{M-N}}{\text{INUM}_{M-N-12}}]^{\frac{N}{12}}$$

Definitions

RP = real price

SA = settlement amount, including accrued interest, in current dollars per $100 original principal

A = nominal accrued interest per $100 original principal

r = days from settlement date to next coupon date

s = days in current semiannual coupon period

i = real interest rate, compounded semiannually

C = real annual coupon, payable semiannually, in terms of real dollars paid on $100 initial, or real, principal of the security

n = number of full semiannual periods from settlement date to maturity date

v^n = $1/(1 + i/2)^n$

$a_{\overline{n}|}$ = $(1 - v^n)/(i/2) = v + v^2 + v^3 + \dots v^n$

Date = valuation date

D = the number of days in the month in which Date falls

t = the calendar day corresponding to Date

INUM = index number

Ref INUM_M = reference INUM for the first day of the calendar month in which Date falls

Ref INUM_{M+1} = reference INUM for the first day of the calendar month immediately following Date

Example[1]

The Treasury issues a 30-year inflation-protection bond on July 15, 1996. The bonds have a par value of $100 and are issued at a discount to yield 3.1% (real). The bonds bear a 3% real coupon, payable on January 15 and July 15 of each year. The base price or wage index applicable to this bond is 120.[2] The settlement amount (SA) is calculated using real price formula III.A (for no partial initial semiannual coupon period) in the appendix:

$$n = 60$$

$$v^n = 1/(1 + i/2)^n = 1/(1 + .031/2)^{60}$$

$$= 0.39737847$$

$$a_{\overline{n}|} = (1 - v^n)/(i/2)$$

$$= (1 - 0.39737847)/(.031/2)$$

$$= 38.87880825$$

III.A $$SA = RP = (C/2)a_{\overline{n}|} + 100v^n$$

$$= (3/2) \times 38.87880825 + 100 \times 0.39737847$$

$$= 98.05605959$$

April 15, 1997 is the settlement date for a reopening of this bond. The reference wage or price index number for this date is 132 and the additional supply is issued at a real yield of 3.4%. The settlement amount is calculated by

[1] The example shows the intermediate results rounded to eight decimal places, although the calculations were performed without intermediate rounding. In determining prices and accrued interest in actual auctions of Treasury securities, the Department rounds the final results. The price is rounded to three decimal places and the accrued interest amount to six decimal places, based on a par value of 100.

[2] If this were a real example, this number would have been derived using formula I. The index number for January 15 would have been an interpolation between the index number reported for October and the one reported for November.

first using formula V to calculate the nominal accrued interest since the last coupon payment, per $100 original principal.

$$\text{Index Ratio}_{\text{Date}} = \frac{\text{Ref INUM}_{\text{Date}}}{\text{Ref INUM}_{\text{Base}}} = \frac{132}{120} = 1.1$$

$n = 58$

$s = 181$

$r = 91$

V. $A = [(s-r)/s] \times (C/2) \times \text{Index Ratio}_{\text{Date}}$

$= [(181-91)/181] \times (3/2) \times 1.1$

$= 0.82044199$

The real price is calculated using formula III.B (for an initial partial semiannual coupon period):

$v^n = 1/(1 + .034/2)^{58} = 0.37617050$

$a_{\overline{n}|} = (1 - 0.37617050)/(.034/2)$

$= 36.69585314$

$$\text{III.B} \quad RP = \frac{C/2 + (C/2)a_{\overline{n}|} + 100v^n}{1 + (r/s)(i/2)} - [(s - r)/s](C/2)$$

$$RP = \frac{(3/2)+[(3/2) \times 36.69585314]+(100 \times 0.37617050)}{1 + (91/181) \times (.034/2)}$$

$$- [(181-91)/181] \times (3/2)$$

$$= 92.61700426$$

The settlement amount is calculated using formula IV:

IV. $SA = A + [\text{Index Ratio}_{\text{Date}} \times RP]$

$= 0.82044199 + (1.1 \times 92.61700426)$

$= 102.69914667$

PART 356--SALE AND ISSUE OF MARKETABLE BOOK-ENTRY TREASURY BILLS, NOTES, AND BONDS (DEPARTMENT OF THE TREASURY CIRCULAR, PUBLIC DEBT SERIES NO. 1-93)

Authority: 5 U.S.C. 301; 31 U.S.C. 3102, *et seq.*; 12 U.S.C. 391.

Date: 5/15/96

Darcy Bradbury

Darcy Bradbury
Assistant Secretary (Financial Markets)
4810-39-W

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 17, 1996

Contact: Peter Hollenbach
(202) 219-3302

STUDENTS TO BUY BONDS IN FIRST EVER SAVINGS BOND DAY

Students at six schools will, for the first time ever, have an opportunity to purchase a $50 Series EE savings bond with money they have saved in their school saving program. The schools will all hold their Bond Days during the week of May 20, 1996. The Bureau of the Public Debt and Save For America teamed up to offer students the opportunity to buy a bond as part of the school savings program. Students and parents who don't have a school savings account will also have an opportunity to buy a bond.

Mary Ellen Withrow, Treasurer of the United States said, "We have a critical need to teach young Americans about the importance of saving for ourselves and our Nation. By offering students a once a year opportunity to purchase a bond with the money they've saved we are, once again, giving our children an opportunity to participate in the Savings Bond Program."

Students who purchase bonds will each receive a special certificate commemorating their participation.

Save For America operates a U.S. Department of Education model program which teams up banks and other financial institutions that sponsor savings programs for students at local schools. Volunteers run the programs in each school. The Save For America program seeks to educate young Americans about the importance of thrift and self reliance to building personal security.

The six schools and five banks were selected to inaugurate Savings Bonds Day, which will be expanded nation-wide during the 1996-1997 school year. Some 4,000 schools and 237 banks operate school savings programs under the auspices of Save for America.

According to Sherry Avena, Save For America President, "The Savings Bonds Program and Save For America share a common interest in educating young Americans about the need to save for their future."

A list of participating schools and banks accompany this release. Public Debt is the Treasury bureau that administers the Savings Bonds Program.

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PARTICIPATING INSTITUTIONS FOR MAY 1996 SAVINGS BOND DAY

JACKSONVILLE, FLORIDA

Barnett Bank of Jacksonville	Marjorie K. Rawlings Elementary School
	Ponte Vedra/Palm Valley Elementary School

SPARKS, NEVADA

Bank of America	Huffaker Elementary School

COHOES, NEW YORK

Cohoes Savings Bank	Menands School

URBANA, OHIO

Peoples Savings Bank	Urbana Local School

CHARLESTON, WEST VIRGINIA

Huntington National Bank, WV	Belle Elementary School

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

Update: May 17, 1996

PRESS SCHEDULE

Meeting of Western Hemisphere Finance Ministers
Hosted by the United States of America
New Orleans
Friday, May 17, and Saturday, May 18, 1996

The following is an updated schedule and additional press information on the meeting of finance ministers from the 34 democratic countries in the Western Hemisphere that U.S. Treasury Secretary Robert Rubin will host in New Orleans on Friday, May 17, and Saturday, May 18.

This tentative press schedule and summary of press arrangements for the meeting is for planning purposes only.

Unless otherwise noted, all events are at Gallier Hall, 545 St. Charles Avenue.

This advisory may be updated.

Saturday, May 18

8 a.m.	Press Center opens.
8:15 a.m.	Cameras set up at Gallier Hall for arrivals.
9-9:30 a.m.	Delegation arrivals.
9:30 a.m. -12:30 p.m.	Plenary session. Press: photo op at beginning of meeting; may be pooled. Media will be escorted from International Press Center at 9:15 a.m.
10:45 a.m.	Background press briefing: update on morning plenary sessions and briefing on financial crimes issues.

	Location: Nord Theater briefing room, ground floor of Gallier Hall.
12:15 p.m.	Cameras setup for group photo of finance ministers. Location: Lafayette Square, across from Gallier Hall.
12:40 p.m.	Group photo. Press: Open.
2:30-3:45 p.m.	Plenary session.
3:15 p.m.	Setup for concluding press conference Press will be escorted from International Press Center
4 p.m.	Concluding press conference Location: Third Floor, Ballroom D, Gallier Hall
5-7 p.m.	Reception hosted by World Trade Center and other New Orleans business groups. Location: World Trade Center, 2 Canal Street. Press: Credentialed press are invited to the reception; a riser area will be provided for working press.
8 p.m.	International Press Center closes.

Credentials. Press credentials are required for all media covering the meeting.

International Press Center. The International Press Center will be open from 9 a.m. Friday, May 17, until 8 p.m. Saturday, May 18, at Gallier Hall, ground floor. The press center, open to credentialed reporters, will make available official schedules, press releases, information on events open to press coverage, transcripts and background information.

The press center has a limited number of international credit and calling card telephone lines.

Shuttle buses. Shuttle buses will provide transportation between conference locations for credentialed delegates, staff and press.

Conference Internet site: www.gnofn.org/mwhfm

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4810-39-W

DEPARTMENT OF THE TREASURY

Office of the Assistant Secretary for Financial Markets

31 CFR Part 356

Amendments to the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes and Bonds

AGENCY: Office of the Assistant Secretary for Financial Markets, Treasury.

ACTION: Advance Notice of Proposed Rulemaking.

SUMMARY: The Secretary of the Treasury (Secretary) is authorized under Chapter 31 of Title 31, United States Code, to issue United States obligations and to offer them for sale under such terms and conditions as the Secretary may prescribe. The Department of the Treasury (Department or Treasury) is issuing this Advance Notice of Proposed Rulemaking to solicit comments on the design details, terms and conditions, and other features of a new type of marketable book-entry security the Treasury intends to issue, inflation-protection notes or bonds, with a return linked to the inflation rate in prices or wages. The Treasury is specifically interested in comments concerning choice of index, structure of the security, auction technique, offering sizes, and maturities. The Treasury also invites comments on other specific issues raised, as

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well as on any other issues relevant to the new type of security.

DATE: Comments must be received on or before (insert date 30 days after publication in the Federal Register).

ADDRESSES: Comments should be sent to: the Government Securities Regulations Staff, Bureau of the Public Debt, 999 E Street, N.W., Room 515, Washington, D.C. 20239. Comments received will be available for public inspection and copying at the Treasury Department Library, Room 5030, Main Treasury Building, 1500 Pennsylvania Avenue, N.W., Washington, D.C. 20220.

FOR FURTHER INFORMATION CONTACT: Norman Carleton, Director, Office of Federal Finance Policy Analysis, Office of the Assistant Secretary for Financial Markets, at 202-622-2680. In addition, the Treasury plans to hold a series of investor meetings in New York, Washington, D.C., Chicago, Boston, San Francisco, and possibly other cities in late May and in June 1996 to discuss the new securities, answer questions, and solicit comments. To request information about attending any of these meetings, contact the Office of Financing, Bureau of the Public Debt, at 202-219-3350.

SUPPLEMENTARY INFORMATION: The Treasury Department intends to issue a new type of marketable book-entry security with a nominal return linked to the inflation rate in prices or wages, as officially published by the United States Government. The Treasury is considering various indices for this purpose, including the Consumer Price Index for All Urban Consumers (CPI-U) published by the Bureau of Labor Statistics (BLS) of the Department of Labor, the core CPI (CPI-U, excluding food and energy, as published by the BLS), the Gross Domestic Product (GDP) deflator published by the Bureau of Economic Analysis (BEA) of the Department of Commerce, and the Employment Cost Index--Private Industry (ECI) also published by BLS. Through this notice, the Treasury is soliciting comments on the design details of the planned inflation-protection securities and on which index (those mentioned above or another index) would be most likely to result in the broadest market for the new securities. At the end of this notice is a hypothetical term sheet with proposed formulas applicable to one of the structures being considered for the new security.

This advance notice of proposed rulemaking is not an offering of securities, and any of the currently contemplated features of inflation-protection securities that are described in this notice may change. The terms and conditions of particular securities that may be offered will be set forth in the Uniform Offering Circular (31 CFR Part 356) and the applicable offering announcement.

The Department intends to issue inflation-protection notes or bonds in order to save on interest costs and to broaden the types of debt instruments available to investors in U.S. financial markets. Because the Treasury, rather than the investor, would bear the inflation risk on an inflation-protection security, the Department expects that the prices at which it would sell this new type of security would capture some or all of the inflation risk premium charged by investors on conventional Treasury securities. In other words, investors should be willing to pay extra for a security on which the issuer, rather than the investor, bears the risk of higher than expected inflation. Consequently, the expected interest costs to the Treasury of inflation-protection securities should be lower than those on conventional Treasury securities.

In addition, inflation-protection securities may prove to be attractive investments to investors who do not now invest in Treasury securities to any significant extent. For example, certain pension funds that currently invest in bonds other than Treasury securities because of the higher yields on private fixed-income securities may find Treasury inflation-protection notes or bonds useful to include in their portfolios. The new securities would offer explicit inflation protection to investors, which has heretofore been unavailable in a Treasury debt instrument. This inflation protection could prove attractive for investments for retirement. Also, because the path of changes in market prices of inflation-protection securities would be markedly different from that of the market price of conventional fixed-income instruments or equity investments, inflation-protection securities could be useful for achieving some portfolio diversification. This broadening of the market for Treasury securities should also result in lower overall interest costs for the Treasury over time.

Indexation Methodology. A design of the inflation-protection securities that is currently being considered is modeled, with some modifications, on the Real Return Bonds currently issued by the Government of Canada. The Department is soliciting comments about this choice of model and the specific details described below and in the hypothetical term sheet, as well as the formulas in the appendix.

For this particular structure, the principal amount of the inflation-protection security is adjusted for inflation, so that the adjusted value remains the same in constant dollars. This is achieved by multiplying the principal value of the security at issuance by an index ratio. The index ratio is the reference index number applicable for the valuation day divided by the reference index number applicable for the issue date.

Because the reporting of a monthly price or wage series index number for a particular month by necessity takes place after the month has ended and because the market needs to determine accrued interest on a daily basis, there has to be a lag in the indexation of the security. For this structure, if it is based on a monthly index that is reported in the following month, the indexation of the principal on the first day of any month is based on the index number for the third preceding month. For example, the index number applicable to the first day of December is the one reported for September. For other days of the month, a linear interpolation is made between the index number for the third preceding month and the one for the second preceding month (in this example, October). Using the third preceding month as the reference month is the minimum lag that enables interpolation between the index number for that month and the following month.

Under this structure, interest is payable semiannually. Interest payments are a fixed percentage of the value of the inflation-adjusted principal, in current dollars, for the date on which it is paid.

Alternative Structures. The Treasury has given the most study to the Canadian model for inflation-protection securities, which in turn is a modification of the United

Kingdom's index-linked gilts. However, alternative structures are possible, and the Treasury is asking for comment on whether alternative structures might be more desirable for U.S. financial markets.

One alternative structure is a zero-coupon inflation-indexed security. This type of security could prove to be quite volatile in price, but, if held to maturity, this structure would provide the greatest certainty about its return, since there would be no reinvestment risk associated with coupon payments.

In addition to general comments concerning the market for a zero-coupon inflation-protection security, the Treasury is soliciting comments about the use for this structure of an index, such as the GDP deflator, that is subject to retroactive revisions. Since the Treasury would only make one payment on a zero-coupon inflation-protection security, revisions would be less of a problem from the cash flow perspective than with a security that pays interest every six months. However, the use of an index that is revised retroactively may cause some impediments to trading the security and would complicate the applicable tax rules.

Another quite different structure is an inflation-protection security that pays out principal and interest at periodic intervals. Ignoring the lags, under this structure, each payment is equal in real terms, but the proportion of each payment representing principal and interest changes. In other words, this structure is similar to the cash flows of a home mortgage, and, more specifically, a price level adjusted mortgage. This structure may be appealing to investors desiring a flow of periodic payments that stay constant in real terms. It is also possible that this structure may be more appealing than a Canadian-type security to taxable investors concerned about receiving sufficient cash payments from the security to satisfy the tax on the income from the security.

Price or Wage Indices. The Treasury is requesting comments on which price or wage index is likely to result in the broadest market for inflation-protection securities. Specifically, the Department is considering (1) the CPI-U, (2) the core CPI, (3) the GDP deflator, and (4) the ECI. The Treasury also requests comments on whether another index would serve the desired purpose better.

The CPI-U is the best known measure of inflation, and, as such, is a logical candidate for indexing the securities. However, the CPI-U may not be the best index for certain investors. For example, pension funds' liabilities are more sensitive to change in wages than to changes in consumer prices.

The core CPI is a less volatile index than the CPI-U, and this may be appealing to investors. However, while energy and food prices eventually influence other prices, the core CPI could be criticized for not completely reflecting any trend that may develop in prices in the energy and food sectors.

The GDP deflator is a broad measure of price trends in the economy. As noted above, its use may be better suited to a zero-coupon inflation-protection security than to a note or bond paying semiannual coupons, because the GDP deflator, unlike the other indices under consideration, is subject to periodic revision.

Periodic revisions of an index pose three potential problems. The first is the need for finality in determining payment amounts. Second, the change in an index for a given period could be based on an index number for a previous period that has since been revised. An indexation methodology designed to correct for revisions in previous values of the index would create additional complexity. Finally, even for a zero-coupon security, revisions may cause complications in the applicable tax rules throughout the life of the security. Revisions may be less of a problem for a security that makes only one payment at maturity than for one that pays interest every six months.

The ECI may appeal to pension funds, whose liabilities are more linked to wage, rather than price, inflation. In this regard, commenters are also asked to address whether the total compensation or the wages and salaries series of the ECI would be the most useful. Since the ECI is a quarterly index, the precise indexation methodology and the formulas in the appendix, which assume a monthly index, would need to be modified.

The Treasury is also requesting comments on whether a seasonally adjusted or non-seasonally adjusted series would be preferable. Seasonal adjustment smoothes out fluctuations, but seasonal factors are subject to revisions for a considerable period of time.

Calculation of the Price or Wage Series. From time to time, government statistical agencies, such as the BLS and the BEA, revise their methodology for calculating indices in order to improve their accuracy. Such revisions on a forward-going basis may affect the inflation rate as measured by the index and, therefore, the return to investors.

For a Canadian-type or level real payment inflation-protection security, revisions of a price or wage index number that has previously been reported, however, would not be used for calculations of principal value or interest payments. This is in order for there to be finality in determining payment amounts.

When a price or wage index is rebased to a different year, the Treasury would use the price or wage index series with the same base year(s) as when the security was first issued, as long as that series continues to be published. The reason for this is to maintain precision in the indexation of the security that may otherwise be lost due to rounding, a problem that becomes more acute if the price or wage index has increased significantly from the original base year(s) to the new one. The Department is specifically soliciting comments on this point.

In the case of an index series reported on a monthly basis in the following month, the Department is considering the following procedure for the Canadian-type security if the index is reported late. If the index number for a particular month is not reported by the last day of the following month, the Department would announce by the end of the next business day an index number based on the last twelve-month change in the index available. This number would be used for all subsequent calculations and would not be replaced by the actual price or wage index number when it is reported. Since the Treasury may use a price or wage series that is not seasonally adjusted, the Treasury welcomes comments on this procedure. The Department believes that this calculation would rarely, if ever, be necessary.

If the price or wage index for an inflation-protection security is discontinued while that security is outstanding, the Treasury would consult with the agency responsible for the index, and, based on such discussions, the Treasury would select an appropriate substitute index and methodology for linking the two series. Determinations of the Secretary in this regard would be final.

Finally, if the Federal Government commences publication of a new version of the index that is more appropriate for indexation than the one originally chosen, the Treasury expects it would then use the new version for indexing new inflation-protection securities. Concerning the introduction of a new version, the Treasury is requesting commenters to address whether the Treasury should also index outstanding inflation-protection securities to the new version starting from its introduction or whether outstanding securities should remain indexed to the original series as long as that series continues to be published.

Auction Technique. The Department is considering offering inflation-protection securities through a single-price auction. The exact type of auction has yet to be determined, and the Department is particularly interested in input from potential auction participants, as well as others, on this subject.

For a Canadian-type inflation-protection security, options include two types of single-price auctions where the Treasury asks for bids in terms of real yield to three decimal places. In the first case, the highest accepted yield would become the coupon, and the inflation-protection note or bond would be issued at par. In the second case, the Treasury would set a coupon after the auction in an increment of 0.125%, and the price of the security would be determined by the formulas in the appendix.

Also, the Treasury could announce a coupon on the security and accept bids in terms of price. However, this option runs counter to the Department's auction practice for its conventional Treasury securities, and, at least initially, it may be difficult to judge what would be the appropriate coupon.

Noncompetitive bids up to $5 million per bidder would be permitted for inflation-protection securities. In order to ensure that enough competitive bids are accepted to price the security fairly, the Treasury is considering whether all or part of the noncompetitive bids should be filled by issuing more securities than the originally announced public offering amount. The Department is requesting comments on this issue.

Given the pricing uncertainty inherent in any new type of security, the Treasury is requesting comments on whether the Treasury should announce prior to a single-price auction of an inflation-protection security that it retains, and may exercise, the option to award an amount greater or less than the announced public offering amount. The reason for awarding less stems from the use of the single-price auction technique and the unique nature of this new instrument. If there were an extremely long tail between the yield necessary to sell, for example, 95 percent of the announced size and the remaining 5 percent, awarding less would avoid issuing the security with an unreasonably high real yield. (In any case, the Secretary reserves the right, in any auction, to award an amount of securities greater or less than the offering amount. See 31 CFR 356.33)

The Department also welcomes comments on whether a single-price or a multiple-price auction would be more appropriate for inflation-protection securities.

The Treasury is also requesting commenters to address whether any of the auction rules for conventional Treasury securities are inappropriate for an offering of inflation-protection securities and specifically whether there should be a limit to the amount recognized at a single yield from a bidder or the amount awarded to a single bidder in an auction of inflation-protection securities.

Frequency. The Treasury contemplates issuance of inflation-protection securities on a regular quarterly cycle.

Reopenings. The Treasury could reopen an issue of an inflation-protection note or bond, though the flexibility to do this under changing market conditions is conditioned by tax issues involving the original issue discount rules that have yet to be decided. A reopening would also be accomplished by an auction. The Department welcomes comments on whether bids on an issue that is being reopened should be in terms of real yield or price.

For a Canadian-type security, amounts bid at an auction for a reopened inflation-protection security would be in terms of original par amount, not the inflation-adjusted par amount. The Treasury would announce prior to the auction the index ratio necessary to convert the original par amount to the inflation-adjusted par value for the settlement date. This means that if the index ratio for the settlement date is 1.03, a $1,000 bid amount would translate into $1,030 inflation-adjusted par value. The Treasury is requesting comments on this procedure.

Also, the Treasury is requesting comments on whether reopenings of an issue would be important for market liquidity, or whether they would act as a constraint on prices, given the possibility of additional supply of the security in the next quarter.

Maturities. The Department's current thinking is that 10-year inflation-protection notes or 30-year inflation-protection bonds would be the most appropriate maturity sectors for this instrument. The Treasury is soliciting comments on which maturity sectors would be most in demand for inflation-protection notes or bonds.

Amounts. The Department is requesting comments on the appropriate size of the initial auctions of inflation-protection notes or bonds. The Treasury intends to increase the size of the auctions from the initial levels over time.

Book-Entry Form and Systems. The inflation-protection securities would be offered only in book-entry form. They would be issued and maintained in the commercial book-entry system which is operated by the Federal Reserve Banks, acting as fiscal agents for the Treasury Department. The Treasury also would make inflation-protection securities available through TREASURY DIRECT, a system designed primarily to enable investors who do not intend to trade Treasury securities to hold ~~their~~ book-entry securities directly on the records of the Treasury.

Eligible amounts for holding and transferring would be in multiples of $1000 of original par value for a Canadian-type inflation-protection security. The Treasury is soliciting comments on any operational issues arising from the fact that the amount of an inflation-protection security held and transferred on the book-entry systems would be referred to in terms of the original par value, not the inflation-adjusted value.

Treasury Tax and Loan Accounts. The Treasury intends to make inflation-protection securities eligible as collateral for Treasury Tax and Loan Accounts. Valuation for collateral purposes would depend on the precise structure of the security.

Stripping. For a Canadian-type security, the Treasury would make inflation-protection securities eligible for stripping on the commercial book-entry system at some point after issuance of the new security had begun. This would not be operationally possible initially. Eligibility for stripping might extend only to inflation-protection securities issued after a future effective date.

Taxation. In general, a payment on an inflation-protection security or an increase in the principal amount of the security attributable to the inflation adjustment would be includible in taxable income for the year in which it occurs and would be treated as interest income. Interest payments on inflation-protection securities generally would have to be included in the owner's taxable income when received or as accrued, depending on the owner's method of accounting for tax purposes. For a zero-coupon inflation-protection security, the difference between the issue price and the original par amount would be interest that the holder would include as taxable income on a constant yield basis. The precise tax treatment in the event the principal decreases because of a decline in the price or wage index has yet to be determined. Other tax issues, including the reporting of income on the securities by brokers and other intermediaries (*i.e.*, custodians), also remain to be determined. Relevant tax issues would be announced before the first issue.

Minimum Guarantee. If the sum of all the interest payments and the inflation-adjusted principal value at maturity of the inflation-protection note or bond is less than the par value of the note or bond at issuance, the Treasury would make an additional payment at maturity for the difference.

After receipt and consideration of responses to this advance notice of proposed rulemaking, the Department intends to issue a final rule amending 31 CFR Part 356, "Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds" (Uniform Offering Circular). Because the rule would relate to public contracts and procedures for United States securities, the notice, public comment, and delayed effective date provisions of the Administrative Procedure Act are inapplicable, pursuant to 5 U.S.C. 553(a)(2).

HYPOTHETICAL TERM SHEET

Note: This hypothetical term sheet assumes that an inflation-protection note or bond would be linked to a price or wage index reported monthly and that the index number for each month is reported the following month.

ISSUER

United States Treasury

ISSUE

Inflation-protection note or bond

PAYMENT DATES

Inflation-adjusted principal on the security will be paid on the maturity date as specified in the offering announcement. Interest on the security is payable on a semiannual basis on the interest payment dates specified in the offering announcement through the date the principal becomes payable. In the event any principal or interest payment date is a Saturday, Sunday or other day on which the Federal Reserve Banks are not open for business, the amount is payable (without additional interest) on the next business day.

MATURITIES

Ten or thirty years.

INDEXING METHODOLOGY

To calculate the value of the principal for a particular valuation date, the value of the principal at issuance is multiplied by the index ratio applicable to that valuation date. Semiannual coupon interest is determined by multiplying the value of the principal at issuance by the index ratio for the coupon payment date by one-half the stated rate of interest.

INDEX RATIO

The index ratio for any date is the ratio of the reference index number (reference INUM) applicable to such date to the reference INUM applicable to the original issue date.

REFERENCE INUM

The reference INUM for the first day of any calendar month is the INUM for the third preceding calendar month. (For example, the reference INUM for December 1 is the INUM reported for September of the same year, which is released in October.) The reference INUM for any other day of the month is calculated by a linear interpolation between the reference INUM applicable to the first day of the month and the reference INUM applicable to the first day of the following month.

Any revisions that the agency responsible for the index makes to any INUM that has been previously released shall not be used in calculations of the value of Treasury inflation-protection securities.

In the case that the INUM for a particular month is not reported by the last day of the following month, the Treasury will announce an index number based on the last year-over-year inflation rate as measured by the chosen index. Any calculations of the Treasury's payment obligations on the inflation-protection security that need that month's INUM number will be based on the index number that the Treasury has announced.

If the applicable price or wage series is discontinued during the period the inflation-protection security is outstanding, the Treasury will, in consultation with the agency responsible for the series, determine an appropriate substitute index and methodology for linking the discontinued series with the new price or wage index series. Determinations of the Secretary in this regard will be final.

STRIPS

Eligible for the STRIPS program at a future date.

TAXATION

Appreciation of the principal will be taxed as interest income in the period the appreciation occurs. Interest payments will be includible as interest income when received or as they accrue, depending on the taxpayer's method of accounting. Other tax details remain to be determined.

AUCTION TECHNIQUE

Single-price auction. Options:

(1) Bidders bid for coupon, with bids expressed to three decimal places. The highest accepted yield becomes the coupon. Security is issued at par.

(2) Bidders bid real yield, with bids expressed to three decimal places. Coupon is set near the highest accepted real yield in increments of 1/8 of 1 percent. Price is determined by formula in the appendix using the highest accepted yield.

(3) Before the auction Treasury announces a coupon, securities are issued at lowest accepted price.

MINIMUM GUARANTEE

If the sum of all the interest payments and the inflation-adjusted principal is less than the par value of the security at time of issuance, the Treasury will pay an additional sum at maturity equal to the difference.

MINIMUMS AND MULTIPLES TO BID, HOLD, AND TRANSFER

The minimum to bid, hold, and transfer is $1000 original principal value. Larger amounts must be in multiples of $1000.

Appendix - Formulas

I. Reference INUM:

$$\text{Ref INUM}_{\text{Date}} = \text{Ref INUM}_{M} + \frac{t-1}{D}[\text{Ref INUM}_{M+1} - \text{Ref INUM}_{M}]$$

II. Index Ratio:

$$\text{Index Ratio}_{\text{Date}} = \frac{\text{Ref INUM}_{\text{Date}}}{\text{Ref INUM}_{\text{Base}}}$$

III. Real Price:

A. No initial partial semiannual coupon period:

$$RP = (C/2)a_{\overline{n}|} + 100v^{n}$$

B. With initial partial semiannual coupon period:

$$RP = \frac{C/2 + (C/2)a_{\overline{n}|} + 100v^{n}}{1 + (r/s)(i/2)} - [(s-r)/s](C/2)$$

IV. Settlement amount, including accrued interest, for $100 Original Principal:

$$SA = A + [\text{Index Ratio}_{\text{Date}} \times RP]$$

V. Accrued Interest:

$$A = [(s-r)/s] \times (C/2) \times \text{Index Ratio}_{\text{Date}}$$

VI. INUM not reported timely for month M:

$$\text{Ref INUM}_{M} = \text{INUM}_{M-1} \times [\frac{\text{INUM}_{M-1}}{\text{INUM}_{M-13}}]^{\frac{1}{12}}$$

Generalizing for last reported INUM issued N months prior to month M:

$$\text{Ref INUM}_{M} = \text{INUM}_{M-N} \times [\frac{\text{INUM}_{M-N}}{\text{INUM}_{M-N-12}}]^{\frac{N}{12}}$$

Definitions

RP = real price

SA = settlement amount, including accrued interest, in current dollars per $100 original principal

A = nominal accrued interest per $100 original principal

r = days from settlement date to next coupon date

s = days in current semiannual coupon period

i = real interest rate, compounded semiannually

C = real annual coupon, payable semiannually, in terms of real dollars paid on $100 initial, or real, principal of the security

n = number of full semiannual periods from settlement date to maturity date

v^n = $1/(1 + i/2)^n$

$a_{\overline{n}|}$ = $(1 - v^n)/(i/2) = v + v^2 + v^3 + \ldots v^n$

Date = valuation date

D = the number of days in the month in which Date falls

t = the calendar day corresponding to Date

INUM = index number

Ref INUM_M = reference INUM for the first day of the calendar month in which Date falls

Ref INUM_{M+1} = reference INUM for the first day of the calendar month immediately following Date

Example[1]

The Treasury issues a 30-year inflation-protection bond on July 15, 1996. The bonds have a par value of $100 and are issued at a discount to yield 3.1% (real). The bonds bear a 3% real coupon, payable on January 15 and July 15 of each year. The base price or wage index applicable to this bond is 120.[2] The settlement amount (SA) is calculated using real price formula III.A (for no partial initial semiannual coupon period) in the appendix:

$$n = 60$$

$$v^n = 1/(1 + i/2)^n = 1/(1 + .031/2)^{60}$$

$$= 0.39737847$$

$$a_{\overline{n}|} = (1 - v^n)/(i/2)$$

$$= (1 - 0.39737847)/(.031/2)$$

$$= 38.87880825$$

$$\text{III.A} \qquad SA = RP = (C/2)a_{\overline{n}|} + 100v^n$$

$$= (3/2) \times 38.87880825 + 100 \times 0.39737847$$

$$= 98.05605959$$

April 15, 1997 is the settlement date for a reopening of this bond. The reference wage or price index number for this date is 132 and the additional supply is issued at a real yield of 3.4%. The settlement amount is calculated by

[1] The example shows the intermediate results rounded to eight decimal places, although the calculations were performed without intermediate rounding. In determining prices and accrued interest in actual auctions of Treasury securities, the Department rounds the final results. The price is rounded to three decimal places and the accrued interest amount to six decimal places, based on a par value of 100.

[2] If this were a real example, this number would have been derived using formula I. The index number for January 15 would have been an interpolation between the index number reported for October and the one reported for November.

first using formula V to calculate the nominal accrued interest since the last coupon payment, per $100 original principal.

$$\text{Index Ratio}_{\text{Date}} = \frac{\text{Ref INUM}_{\text{Date}}}{\text{Ref INUM}_{\text{Base}}} = \frac{132}{120} = 1.1$$

$n \quad = \quad 58$

$s \quad = \quad 181$

$r \quad = \quad 91$

V. $\quad A \quad = \quad [(s-r)/s] \times (C/2) \times \text{Index Ratio}_{\text{Date}}$

$\quad = \quad [(181-91)/181] \times (3/2) \times 1.1$

$\quad = \quad 0.82044199$

The real price is calculated using formula III.B (for an initial partial semiannual coupon period):

$v^n \quad = \quad 1/(1 + .034/2)^{58} \quad = \quad 0.37617050$

$a_{\overline{n}|} \quad = \quad (1 - 0.37617050)/(.034/2)$

$\quad = \quad 36.69585314$

$$\text{III.B} \quad RP = \frac{C/2 + (C/2)a_{\overline{n}|} + 100v^n}{1 + (r/s)(i/2)} - [(s - r)/s](C/2)$$

$$RP = \frac{(3/2)+[(3/2) \text{ x } 36.69585314]+(100 \text{ x } 0.37617050)}{1 + (91/181) \text{ x } (.034/2)}$$

$$- [(181-91)/181] \times (3/2)$$

$$= 92.61700426$$

The settlement amount is calculated using formula IV:

IV. $\quad SA \quad = \quad A + [\text{Index Ratio}_{\text{Date}} \times RP]$

$\quad = \quad 0.82044199 + (1.1 \times 92.61700426)$

$\quad = \quad 102.69914667$

PART 356--SALE AND ISSUE OF MARKETABLE BOOK-ENTRY TREASURY BILLS, NOTES, AND BONDS (DEPARTMENT OF THE TREASURY CIRCULAR, PUBLIC DEBT SERIES NO. 1-93)

Authority: 5 U.S.C. 301; 31 U.S.C. 3102, *et seq.*; 12 U.S.C. 391.

Date: 5/15/96

Darcy Bradbury

Darcy Bradbury
Assistant Secretary (Financial Markets)
4810-39-W

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
May 20, 1996

Contact: Jon Murchinson
(202) 622-2960

TREASURY TO HOLD INFLATION-PROTECTION DEBT INFORMATION MEETINGS

The Treasury Department will hold a series of meetings to discuss its plans to issue inflation-protection securities. These meetings will be an opportunity for investors and dealers to provide comments to Treasury on the design details, possible terms and conditions of the new securities. The meetings will take place in Washington, D.C., New York City, Boston, Chicago, San Francisco, London and Tokyo. **Press wishing to attend must call the appropriate contact listed for each city.** The dates and locations for each meeting are as follows:

DATE	LOCATION	PRESS CONTACT
May 29	Treasury Department 1500 Pennsylvania Avenue, NW Washington, D.C.	Jon Murchinson (202) 622-2960
May 30	Federal Reserve Bank 33 Liberty Street New York, N.Y.	Bart Sotnick (212) 720-6143
June 4	Federal Reserve Bank 600 Atlantic Avenue Boston, Massachusetts	Thomas L. Lavelle (617) 973-3647
June 5-7	U.S. Embassy 24 Grosvenor Square London, W1A	Dennis Wolf (011) 441714995261

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RR-1081

DATE	LOCATION	PRESS CONTACT
June 5	Federal Reserve Bank 230 South LaSalle Street Chicago, Illinois	Suzanne Hefner (312) 322-5108
June 6	Federal Reserve Bank 101 Market Street San Francisco, California	Sandra Conlan (415) 974-3231
June 10, 11	U.S. Embassy 10-5, Akasaka 1-chome Minato-ku, Tokyo (107)	Emi Yamauchi (011) 81332245267

Times for all meetings will be announced at a later date. Non-press inquiries should be directed to the Bureau of Public Debt, (202) 219-3350, or to the U.S. Treasury Attaches in London, (011) 441714088069, or Tokyo, (011) 81332245486. To receive the Advance Notice of Proposed Rulemaking from Treasury's automated fax system call (202) 622-2040 and request document 1080.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

Hon. Robert E. Rubin
United States Secretary of the Treasury
Concluding Statement
[Remarks Prepared for Delivery]
Meeting of Western Hemisphere Finance Ministers
May 18, 1996

We have just concluded the first meeting of finance ministers from this hemisphere since the Summit of the Americas. We covered a broad set of topics. We set in motion steps we believe will contribute greatly to the future prosperity of our region. And we have advanced the interests we Americans share in expanding growth, private investment, jobs and the security of all of our people.

Speaking for myself, I have rarely seen as robust and wide-ranging a discussion as that which transpired at this meeting today. I am bringing back home to Washington a long list of questions asked and issues raised which represent, in my view, the agenda for discussion and action in the years ahead. They are matters which will surely comprise the work we do in bilateral and multilateral settings. I believe all of us have broadened and deepened our perspective and understanding of these issues.

That is why these meetings are important. They permit the Finance Ministers to learn from each other. They force each nation and each Minister to confront issues which rise above the day-to-day challenges of our work, issues whose resolution will determine our prosperity for decades to come. And they help us achieve and reinforce good policy -- because all of us can return to our respective nations, economies and ministries and say "this is what our partners believe we all must do so that our entire region can succeed."

We fashioned a communique that details our conclusions and spells out directions we have given on specific actions. Let me summarize the communique in broad terms.

We state our common view of what is necessary both at the macroeconomic level and the microeconomic level tc develop stronger and more prosperous economies, policies that address the problems of poverty and that strengthen and support the integration of our markets. We are committed to policies that will bring inflation down and keep it low. There is no dissent from the view that fiscal discipline and monetary control is of the highest importance.

We are also focused on what policies might increase domestic savings and promote financial stability. These are central to the achievement of higher and more stable levels of real economic growth.

We have also agreed on a number of concrete steps that can help achieve these goals. One is expanding financial transparency -- timely release of key data by governments, disclosure by issuers of securities, and full dissemination of information on trading.

Because markets that mobilize and allocate savings efficiently are central to growth and financial stability, our nations are committing to developing and strengthening the laws, supervisory institutions and enforcement mechanisms that help keep financial markets sound and which help protect investors. At the same time, we want to encourage innovation, and both these aims will require removing regulations that are outmoded or disruptive to competition.

Reflecting these goals, we are taking several steps. Let me mention four:

First, we have asked the IDB to develop programs to help strengthen supervision; second, we have also asked the IDB to work with us to list national financial market regulations that will contribute to transparency as an initial step toward liberalization and integration; third, we've agreed to support work towards accounting standards that are universally understood -- so an investor in one country has no question about what the information in another country means; fourth, we ask the IDB to establish an institute to train bank and securities supervisors and examiners to promote sounder financial institutions.

We also discussed the need to give opportunities to those who have been left out of economic development to take part in it. There is a financial market dimension to this. My colleagues agreed that microenterprise lending can be an important contributor to this process.

The third area we discussed was financial crimes.

We share a commitment to combat money laundering from drug trafficking or any other illegal activity. It's a threat to the integrity of our financial markets, and our economic and political systems. Interest in attacking this problem has been increasing since our money laundering conference in Buenos Aires late last year. A number of countries have taken concrete actions to combat money laundering since the Buenos Aires conference. While others are considering such measures, more work must be done.

In conjunction with the OAS effort to oversee the plans agreed to in Buenos Aires, we will be exploring a coordinated, hemispheric approach to training and technical assistance. I'm pleased that so many of my counterparts want to speed up the process by embracing the training concept.

In each of the areas I have discussed -- macroeconomic policies, financial market development, and fighting financial crime -- this meeting fulfilled our objectives. We learned from each other, we focused on the long-term, and we have developed a shared vision to bring home along with a shared commitment to bringing these ideas to fruition.

This meeting was a success, and we are now determined to institutionalize the consultations among the finance ministers of this hemisphere. We will meet again within two years (or perhaps sooner) to review economic policy issues. Between now and then, our Deputies, supported by a new Technical Working Group on National Financial Market Regulation, and the IDB will be busy with the work we have assigned them. We intend to ask the private sector as we go forward for their advice and guidance.

Today, we have taken critical steps that will, in time, assist economies in this Hemisphere to have greater, more stable growth and less poverty. There are three-quarters of a billion people in our region, and in a very real sense, the work we have done here in New Orleans will create jobs, lift incomes and raise living standards for years and decades to come in this Hemisphere.

Thank you.

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SUMMIT OF THE AMERICAS
MEETING OF WESTERN HEMISPHERE FINANCE MINISTERS
NEW ORLEANS, LOUISIANA
May 18, 1996

JOINT COMMUNIQUE

INTRODUCTION

1. We, the Finance Ministers of the countries participating in the Summit of the Americas (SOA), met in New Orleans, Louisiana to address common challenges to achieve stable and sustainable economic growth in our countries and to move forward on a program that fulfills the commitment of our Heads of State and Government to build more open, transparent and integrated financial markets. Financial market development, liberalization and integration are crucial components of our shared vision of rapidly expanding and increasingly integrated economies in which all citizens can participate. They are also essential complements to the development of a Free Trade Area of the Americas, which is scheduled to eliminate trade and investment barriers by 2005. Our discussions today focused on three broad areas:

a. Maintaining a sound policy environment for private investment

b. Developing, liberalizing and integrating financial markets

c. Combating financial crimes

MAINTAINING A SOUND POLICY ENVIRONMENT FOR PRIVATE INVESTMENT

2. We have a common vision of the policies needed to achieve macroeconomic strength, recognizing that their implementation is a prerequisite to prosperity, to addressing poverty, and to strong, integrated markets in the Americas. We recognize the progress governments are making to put these policies in place.

a. We are committed to developing and maintaining fiscal and monetary policies that bring inflation down to low levels and keep it there, maintain sustainable fiscal and external balances, increase domestic savings, promote financial stability and foster increased real economic growth. We recognize that fiscal policies must be based on strong expenditure control and effective tax administration. Monetary stability and confidence in the financial system are fostered by independent central banks, transparent financial policies and appropriate financial market regulation and supervision.

b. We believe that open and competitive financial markets are instrumental to achieving economic prosperity. Short-term capital flows present macroeconomic policy challenges. Some of our countries have found direct measures useful in moderating these capital flows. We all recognize that, fundamentally, these challenges need to be met through sound macroeconomic and financial policies in recipient and source countries.

c. Increased domestic saving throughout the region is a requirement for more rapid, sustained growth. We acknowledge that meeting this objective will depend upon our ability to contain inflation, control public dissaving, ensure the sustainability of social security systems and implement structural reforms that facilitate and encourage the creation of private sector savings vehicles.

3. Privatization and liberalization, backed by prudential regulatory support, deepen the efficiency of economic activity and promote capital market development and integration. We recognize the importance of moving forward with privatization in the region by identifying and addressing roadblocks to further progress.

4. Although the debt burdens of many countries in the region have become manageable through economic reform and adoption of measures to alleviate sizeable debt obligations, some of our countries still face heavy burdens that will limit the prospects for growth.

a. We encourage eligible countries to take full advantage of existing mechanisms for addressing commercial bank and official bilateral debt problems.

b. We welcome the recent initiative for deeper debt reduction now being implemented by bilateral creditors to the poorest countries.

c. We also welcome the progress in addressing the multilateral debt problem of the highly indebted, poorest countries at the spring IMF and World Bank meetings, and strongly urge these institutions to move promptly to finalize and implement the necessary mechanisms. We recognize a continuing need for adequate flows of concessional funds in the multilateral development banks for the poorest countries.

d. We will continue to study this problem and to explore new mechanisms to address it through our Deputies committee and in future meetings of Ministers.

5. The publication of timely, high quality economic and financial data enhances access to financial resources, supports stable financial markets by harnessing the ability of markets to monitor economic performance, and promotes the sound conduct of economic policy.

a. While recognizing that the appropriate pace of implementation will vary by country, we support IMF standards of public data disclosure.

b. We also agree to work toward making key financial and economic data available on the Internet.

DEVELOPING, LIBERALIZING AND INTEGRATING FINANCIAL MARKETS

6. Financial markets that mobilize and allocate savings efficiently are a cornerstone to economic growth and financial stability.

a. We commit to the development and reinforcement of laws, supervisory institutions, and enforcement mechanisms that ensure financial market soundness and investor protection while preserving incentives for innovation. Doing so will require the removal of regulations that are outmoded or disruptive to competition.

b. We recognize the benefits of progressively integrating financial systems to support broader and deeper financial opportunities for both borrowers and investors, and recognize that sub-regional financial integration can be an intermediate step toward hemispheric integration. This is especially promising for market development in groups of smaller countries.

c. We appreciate the importance of rigorously applied, high quality accounting standards for enterprises. We will promote efforts to develop, revise and raise national standards to reflect important market innovations. In addition, we support ongoing efforts by securities regulators and the accounting profession to develop high quality standards that are acceptable on a global basis. We will explore ways to encourage their use.

d. We recognize the importance of the work of the Association of Latin American and Caribbean Bank Supervisors to strengthen banking supervision systems in the hemisphere and to establish comprehensive supervision on a fully consolidated basis for all internationally active banking organizations.

e. We encourage the Council of Securities Regulators of the Americas (COSRA) to maintain its commitment to protect investors, and develop high quality and comparative regulatory structures, and thereby further integrate financial markets in the hemisphere. We support COSRA's 1996 work program to enhance capital formation, evaluate the impact of market structures, and combat illicit payments.

f. We encourage work within our countries to implement expeditiously the efforts of the Association of Latin American and Caribbean Bank Supervisors and the Council of Securities Regulators of the Americas.

g. Our governments, in conjunction with the Inter-American Development Bank (IDB), have begun to develop a listing of national financial market regulations, mandated by the Summit leaders in December 1994, and intended to increase transparency as a first step toward liberalization and integration.

7. The development of microenterprises -- which account for a large percentage of the employment of the poor, particularly women -- and broader access to financial services are essential elements of sustainable and equitable development. This is an important way to broaden participation in the benefits of economic growth.

a. We recognize that our program to improve the infrastructure and operations of financial market are central to expanding small scale entrepreneurs' access to capital.

b. We also recognize that effective microfinance institutions can facilitate the mobilization of savings to fund investment and broaden economic participation.

8. We recognize the important contributions of the Inter-American Development Bank, the International Monetary Fund and the World Bank to our efforts to reform and develop our financial systems through lending, policy advice, and technical assistance. We encourage these institutions to strengthen further their programs to support banking and capital market supervision and regulation. We also welcome the increasing efforts of the IDB and the World Bank to catalyze private capital flows from domestic and foreign sources by such means as financing and co-financing infrastructure facilities, assisting the privatization of state-owned enterprises, and extending financial support for microenterprises.

COMBATING FINANCIAL CRIMES

9. We reaffirm our shared commitment to intensified action to combat the laundering of proceeds, properties and other instrumentalities of drug trafficking and other illegal activities, recognizing the threat it presents to the integrity of financial markets, and our economic and political systems.

a. We welcome the fact that efforts to combat financial crime have intensified since the December 1995 Ministerial Conference Concerning the Laundering of Proceeds and Instrumentalities of Crime in Buenos Aires. Since then, a number of countries in our region have proposed, passed or adopted legislation to criminalize money laundering and establish strict currency and suspicious transactions reporting rules. This is in addition to countries that already had legislation in place.

b. Our governments recognized the need to go further by agreeing at the Buenos Aires Ministerial to progress evaluations to identify vulnerabilities in each of our legislative, legal and law enforcement systems. We welcome the efforts underway at the OAS to oversee the implementation of the Plan of Action agreed in Buenos Aires. We acknowledge the work of the OAS to study and agree on a coordinated, hemispheric response, including the consideration of an Inter-American convention to combat laundering of money and other assets, and to identify the priorities for basic harmonization of national laws directed at the same purpose.

c. We fully support the ongoing OAS assessments of the implementation of the Buenos Aires Plan of Action, and encourage the IDB, in coordination with the OAS, to develop a coordinated, hemispheric approach to providing training and technical assistance to lay the groundwork for implementation.

10. Recognizing that corruption in both the public and private sector weakens democracy and undermines governance and the legitimacy of institutions, we reemphasize our commitment to transparency and accountability in government, the necessity of strict enforcement measures and the benefits of cooperation in the international investigation of corruption cases.

a. We welcome the ongoing work of the OAS to develop a hemispheric approach to combating corruption and applaud the recently concluded Inter-American Convention Against Corruption. This Convention is the first legally enforceable international treaty on corruption, and has already been signed by 21 countries in the hemisphere.

b. We encourage the IDB, the World Bank and bilateral lenders to address prevention of financial crimes in their operations, including support to official programs.

11. We recognize that cooperation on tax and other financial information exchange is a potentially valuable tool for our anti-money laundering and anti-corruption efforts, and agree to explore ways to promote such exchanges.

WORK PROGRAM AND FUTURE MINISTERIAL MEETINGS

12. The Committee on Hemispheric Financial Issues, established by Heads of State and Government at the Summit of the Americas, met four times during the past 17 months at the Deputies level to discuss recent development in hemispheric financial markets, identify steps to strengthen them, and review the problems of debt in the hemisphere. This work has set the groundwork for the concrete actions that we are authorizing today.

- We call on the Committee Deputies to implement the mandate for future work outlined in Annex A and to support the execution of the initiatives identified in Annex B.

13. We will meet within two years to review economic policy issues and the recommendations of the Committee on Hemispheric Financial Issues and determine what additional steps should be taken to promote financial market development, liberalization and integration.

14. We look forward to the Sustainable Development Summit in Santa Cruz, Bolivia, on December 6-8, 1996.

ANNEX A

MANDATES FOR FUTURE WORK

COMMITTEE ON HEMISPHERIC FINANCIAL ISSUES:

16. The Committee on Hemispheric Financial Issues meeting at the Deputies level will continue its current mandate to pursue strong, open financial and capital markets consistent with the Summit of the Americas goal of regional integration, and to review the problems of heavily indebted countries in the hemisphere. The Committee is specifically directed to:

a. Examine issues that affect the performance of our economies and financial markets, such as improved analysis and dissemination of information concerning national economies by the private sector and international financial institutions, possible ways to improve access to medium and long-term financing, and the conduct of monetary policy in the context of globalized markets.

b. Oversee and build on the work of the newly established Technical Working Group on National Financial Markets Regulations (see below) and identify priority actions to strengthen and integrate financial markets.

c. Ensure implementation of IMF disclosure standards -- as appropriate for each country -- and work toward making key economic and financial information available on the Internet.

d. Encourage the adoption and rigorous application of high quality national accounting and disclosure standards by enterprises.

e. Consider and, as appropriate, endorse recommendations from other sources, including regional associations dealing with financial markets, the Meetings on Financial Market Development and the reviews undertaken by private sector groups within our countries on laws affecting the financing of the private sector (see Annex B).

f. Work with the Inter-American Development Bank, International Monetary Fund, and the World Bank to develop new programs to strengthen and integrate regional financial markets where needed.

g. Explore ways to increase private sector savings, including private sector options for financing and managing pension funds.

h. Develop new recommendations, where appropriate, to address other financial issues of regional concern -- including privatization, infrastructure investment, and microenterprise development.

Examine the overall debt situation in the hemisphere and explore new mechanisms to deal with it, in particular, measures to address the multilateral debt obligations of the poorest countries.

j. Complement the ongoing work of the OAS and of the hemispheric governments through identification of specific initiatives, where appropriate, that Financial Ministries can pursue to combat money laundering and corruption.

k. Prepare recommendations for future work to be considered by the Ministerial meeting in two years.

17. By affirming the Committee's mandate for future work, we:

a. Strengthen the network of finance officials in the hemisphere, facilitating discussion and consensus on key economic issues in the hemisphere;

b. Provide impetus to other organizations, including multilateral development banks and banking and security regulators, to advance efforts important to the hemisphere; and

c. Provide opportunities for mutual support and cross-validation of individual countries' reform efforts.

TECHNICAL WORKING GROUP ON NATIONAL FINANCIAL MARKET REGULATION:

18. A technical working group on national financial market regulations is to be created to:

a. complete, in conjunction with the Inter-American Development Bank, compilation of a comprehensive list of national financial market regulations;

b. determine the best mechanism for making this list publicly available, in order to promote transparency and assist potential investors;

c. develop procedures for informing and reviewing significant changes in these regulations, to encourage transparency and keep the comprehensive list current;

d. draw from the experiences of participating countries and policies contained in the list of national financial market regulations to identify policies that encourage the development, liberalization and integration of the region's financial markets; and

e. identify ways that our countries can cooperate to advance this goal.

19. The working group will be a dynamic vehicle to promote the development, liberalization and integration of financial markets. It will provide periodic progress reports to the Committee on Hemispheric Financial Issues meeting at the Deputies level and will issue a report of its conclusions to the Committee within 18 months. The working group will be comprised of officials with special knowledge about their country's policies and how they affect financial markets.

ANNEX B:

INITIATIVES

- Training Program for Supervision and Examination
- Identifying Priorities for Financial Market Development
- Reviews of National Laws Affecting the Financing of the Private Sector
- Technical Assistance for Combating Financial Crimes

Training Program for Supervision and Examination

Summary:

The Ministers called on the Inter-American Development Bank to establish a technical training program to help develop and train more highly skilled bank and securities supervisors and examiners as a means of promoting greater safety and soundness in Latin American financial systems.

Currently, no regional training programs of the type described below exist for financial market regulators. The proposed training program will foster development in the region of an expanded cadre of technically-skilled bank and securities market regulators and examiners and, by providing common training, it will promote regulatory cooperation across countries and across markets. The specific content of the program's courses should be based on an ongoing analysis of training needs in the region.

Description of Program:

The program will sponsor short-duration courses in banking and securities market supervision and examination. The courses will include opportunities for banking and securities examiners to focus together on issues of common interest. The program will coordinate these courses with the Association of Latin American and Caribbean Bank Supervisors and the Council of Securities Regulators of the Americas.

Participating countries will send officials from their banking, securities and other financial regulatory offices as appropriate (e.g., bank examiners, securities regulators, pension regulators and supervisors of operations).

The IDB will be asked to fund the program.

IDENTIFYING PRIORITIES FOR FINANCIAL MARKET DEVELOPMENT

Summary:

In order to identify priorities for policy action, the Ministers called on the Inter-American Development Bank to host three meetings between policy-makers, regulators and market participants to identify the main problems in the development of deep, liquid financial markets and to recommend solutions. Key issues to be addressed will include the expansion of long-term financing options and the creation of new opportunities for domestic savings. The Ministers further charged their Deputies to review the recommendations and to propose next steps for action.

Description of Conferences:

The IDB will host several hemispheric-wide meetings, including one in the Caribbean, over an 18-month period. Participating countries will send experts from their regulatory agencies that have policy-level responsibility for financial market development. Private sector participants also will be invited and will be asked to present papers on specific topics.

The meeting agendas will focus on practical steps that governments can take to facilitate greater depth and liquidity in domestic financial markets. Topics will include:

- Ways to facilitate greater participation by institutional and retail investors in financial markets, with special emphasis on practical steps that governments can take to widen and deepen domestic institutional participation in financial markets.

- Ways to improve the financial, legal, and regulatory environments so as to make the issuance of medium- and long-term debt and equity instruments attractive to both issuers and investors.

- Ways to improve financial market infrastructure (e.g., quicker and more assured payments and settlement systems that use DVP (delivery versus payment); more efficient provision of custodial services; development of computer-based trading systems).

- Ways to improve financial disclosure and transparency on an internationally comparable basis (e.g., issuer disclosure; investment prospectuses; fund management performance data; transparency with respect to market transactions).

- Development of legal infrastructure to establish property rights, the perfection of security interests, and rules governing bankruptcy proceedings.

The IDB will be asked to provide funding for the meetings.

REVIEWS OF NATIONAL LAWS AFFECTING THE FINANCING OF THE PRIVATE SECTOR

Summary:

The Ministers encouraged relevant national private sector organizations to propose recommendations for improvements in their national laws, regulations and implementation that could enhance financing for the private sector and to recommend practical solutions. The Ministers further charged their Deputies to review the reports and recommendations and to propose next steps for action.

National laws and institutions that protect private property rights, including the rights of creditors, and establish the conditions for innovation and competition are essential to a country's ability to provide finance for the private sector and to sustain economic growth. Ministers have identified reviews by national private sector organizations as an effective way to mobilize the private sector's expertise on aspects of national laws, regulations and implementation which could be improved.

Description of Reviews:

The reviews will identify the most important aspects of laws, regulations and implementation that affect a country's ability to provide finance for the private sector. The areas to be covered will include:

- Protection of private property rights (e.g., secured interests, expropriation issues, policy risk issues)

- Bankruptcy regimes

- Commercial dispute resolution

- Competition policy

Finance Ministries encourage appropriate private sector organizations in each country to conduct reviews of these four areas. These organizations might include lawyers associations, accountancy groups, trade unions, employer and business groups, financial market participants, Chambers of Commerce and other professional organizations. The completed reviews would then be submitted to the Deputies of the Committee on Hemispheric Financial Issues for consideration in 1997.

TECHNICAL ASSISTANCE FOR COMBATING FINANCIAL CRIMES

Summary:

The Ministers encouraged the IDB, in conjunction with the OAS, to establish a comprehensive training and technical assistance program to support nations in their implementation of commitments in the December 1995 Buenos Aires Ministerial Communique on Money Laundering. The program will improve the integrity of the region's financial systems by addressing key legislative, legal and law enforcement objectives.

Description of Technical Assistance Program:

The program will focus on the three core areas of legislation/regulation, investigation/prosecution, and financial intelligence support. For each country that participates, it will entail the following discrete steps:

Step 1: ***Training and technical needs assessment.*** A consultative process incorporating the unique legal, law enforcement, economic, banking sector and other conditions and needs of each nation would be used to make country-specific recommendations for training and technical assistance.

Step 2: ***Training and technical assistance tailored to specific country needs.*** For each country, the range of possible program modules includes:

- *Three-week core training program.* The program will cover the three core areas of legislation/regulation, investigation/prosecution, and financial intelligence support.

- *Train-the-trainer modules.* The aim of these modules is to empower nations to undertake the training of their own personnel.

- *Consultation modules.* International consulting teams will assist with specific problems.

- *Self-instruction modules.* Interactive computer-based programs will be created to provide self-paced study of a broad range of topics.

- *Linkage to other international training programs.* The program will support countries' access to non-duplicative training provided by other organizations and initiatives.

- *Technology transfer.* Where appropriate and subject to resource constraints, the program may provide assistance in developing or procuring computer hardware and software.

The IDB will be asked to fund the training and technical needs assessments and, where appropriate, to fund the training and technical assistance provided to specific countries. Other organizations may also be asked to finance appropriate activities.

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 20, 1996

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,688 million of 13-week bills to be issued May 23, 1996 and to mature August 22, 1996 were accepted today (CUSIP: 912794Z72).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.00%	5.13%	98.736
High	5.03%	5.16%	98.729
Average	5.03%	5.16%	98.729

Tenders at the high discount rate were allotted 38%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$54,821,623	$13,688,465
Type		
Competitive	$49,850,037	$8,716,879
Noncompetitive	1,415,822	1,415,822
Subtotal, Public	$51,265,859	$10,132,701
Federal Reserve	3,423,664	3,423,664
Foreign Official Institutions	132,100	132,100
TOTALS	$54,821,623	$13,688,465

5.01 - 98.734 5.02 - 98.731

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 20, 1996

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,616 million of 26-week bills to be issued May 23, 1996 and to mature November 21, 1996 were accepted today (CUSIP: 9127943P7).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.10%	5.31%	97.422
High	5.12%	5.33%	97.412
Average	5.11%	5.32%	97.417

Tenders at the high discount rate were allotted 1%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$63,904,158	$13,615,711
Type		
Competitive	$56,292,765	$6,004,318
Noncompetitive	1,208,793	1,208,793
Subtotal, Public	$57,501,558	$7,213,111
Federal Reserve	3,500,000	3,500,000
Foreign Official Institutions	2,902,600	2,902,600
TOTALS	$63,904,158	$13,615,711

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

ADV 10:30 A.M. EDT
Remarks as prepared for delivery
May 21, 1996

ORAL TESTIMONY OF TREASURY SECRETARY ROBERT E. RUBIN SENATE APPROPRIATIONS SUBCOMMITTEE ON FOREIGN OPERATIONS

Mr. Chairman and members of the Subcommittee -- this morning I want to discuss our fiscal 1997 request for $1.4796 billion for the international financial institutions (IFIs). I have a longer statement which I'd like to submit for the record.

The IFIs are crucial in shaping a world of growth and prosperity from which all Americans can benefit. They effectively promote the growth, development and reform in developing and transitional economies that creates new and growing markets for our exports, and thereby better jobs and living standards for Americans, and that furthers our national security. Forty percent of our exports, some $235 billion, go into developing economies assisted by the IFIs. Some $20 billion of those exports go to nations now borrowing from the International Development Association (IDA), and countries which have completed IDA programs bought $48 billion in U.S. exports in 1994. It is enormously in our self-interest that the programs of the IFIs be adequately funded.

Our participation in the IFIs is at a crossroads. We cannot unilaterally set the policies and priorities for the IFIs. We must rely on leadership and persuasion to advance our development agenda. The reductions made in FY 1996 funding for the IFIs are severely undermining U.S. credibility and leverage throughout the multilateral financial system. We most honor our international commitments to continue to have the ability to so greatly influence IFI policy. At the same time, we must also set priorities since budget resources are scarce.

We are therefore presenting a lean funding request; one that honors our nation's past commitments and reduces our contributions to the IFIs in the coming years -- in order to reach a goal we all share, continuing to reduce the deficit.

RR-1086 (more)
http://www/ustreas.gov

We are seeking just over $1 billion for the World Bank group, including $934.5 million to meet our outstanding and overdue commitments to the 10th replenishment of the International Development Association (IDA), $100 million for the Global Environment Facility and $6.7 million to meet an overdue commitment to the International Finance Corporation. We seek $263.7 million for the regional development banks -- for Africa, Eastern Europe and the former Soviet Union, and Latin America; $127.7 million for other international financial institutions, including an important new commitment to consolidating the peace process -- the Middle East Development Bank, and $47 million for debt reduction programs.

Permit me to say a few words about IDA. For the three billion people living in the world's poorest countries, IDA is the single most important provider of concessional development assistance. IDA is the key to market-based reform in the poorest countries. Fully one-quarter of IDA lending supports the structural policy changes necessary for sustainable economic growth. IDA is also the world's largest lender for projects which directly contribute to child survival, with some $4.5 billion in projects focussed on health, primary education, nutrition, safe drinking water and proper sanitation currently under preparation. And IDA also plays a vital role in restoring economic growth in countries, such as Bosnia, trying to consolidate peace after civil conflict, and in supporting military demobilization.

U.S. payments to IDA are currently being made in respect of the Bush Administration's $3.75 billion, three-year commitment to IDA-10. Our fiscal 1996 funding request, for the full amount of the final U.S. payment under IDA-10, was, as you are well aware, sharply reduced by the Congress. The $700 million finally appropriated leaves $934.5 million still outstanding. These developments figured prominently in international negotiations for a new multi-year replenishment of IDA (IDA-11), which recently concluded. During these negotiations, we stressed that:

- clearing the outstanding $934.5 million U.S. commitment to IDA would be our first priority;

- we would not make any pledge to IDA-11 in advance on indications from Congress of what it would be prepared to support; and,

- any new U.S. commitment to IDA will be substantially below past commitments.

Therefore, for fiscal 1997 we are requesting the $934.5 million needed to fully clear our outstanding IDA-10 commitment. This would not include any U.S. funding for IDA-11, effectively delaying our participation beyond the fiscal 1997 start-up date committed to by the institution and the other donors. We believe that a commitment of $800 million to IDA-11 in each of 1998 and 1999 is consistent with congressional views. This commitment of $1.6 billion for the 3-year IDA period is less than half our pledge to IDA-10. This amount would be the lowest U.S. pledge to IDA in nominal terms since 1980 and the lowest in real terms since 1965.

In the course of negotiations on IDA-11, other donors argued forcefully against any disruption in IDA's operations by leaving a one-year gap in new funding. They therefore agreed to establish a one-year Interim Fund of approximately $3 billion, to help support IDA operations in fiscal 1997. Non-donors to this fund, including the United States, will not have access to the procurement benefits of this fund. Mr. Chairman, we have strongly opposed the procurement restructions and resisted their inclusion in funds in which the U.S. participates.

I should point out that projects funded by "regular" IDA resources will not be affected. None of the $934.5 million we are requesting for fiscal 1997 will be subject to these procurement restrictions. Moreover, $18.7 billion -- or 85 percent -- of the $22 billion in IDA lending projected for fiscal years 1997 through 1999 will be fully accessible to U.S. companies.

We've had discussions with a large number of U.S. private sector companies which are involved in exports, and I was there for part of the meeting. While they don't like the procurement limitation, they all recognize the much bigger issue is continuing to have reform and growth in developing countries, because that creates the export markets for our goods and services. I might also add that they have the same view we have, which is that if we refuse to participate in IDA all that will do is badly hurt IDA which is not in our interest and it will institutionalize our exclusion from procurement. They also believe, as we do, such a development would harm long-term U.S. export opportunities in emerging markets and give our global competitors an edge.

I also want to touch briefly on the subject of debt reduction. The $22 million we have requested for debt reduction for the poorest countries is part of the international community's efforts to help the poorest countries with unmanageable debt problems. The goal is to clear out part of the old debts, and help put these countries back on their feet. The $22 million requested could leverage as much as $9.5 billion in debt reduction by all creditor governments. Full U.S. funding is essential to full participation by other creditors. I believe the potential benefits of debt reduction in terms of growing economies, export opportunities, and long-term enhanced political stability fully justify U.S. participation in this important effort.

As Secretary Christopher has pointed out, these institutions further our key foreign policy goals by directly contributing to economic and political stability in areas important to our national security. They are the international community's economic tools for times of crisis. And they are tools to create growth, open and integrate markets, and address the global problems of endemic poverty, environmental degradation, mass refugee flows, and unsustainable population growth which are too large for any one nation to address alone.

We agree with Congress that these institutions, for as much good as they are doing, have their shortcomings, and we are using our leadership to remedy that and ensure the best return on our investment. The IFIs have been extremely responsive to an ambitious, U.S.-inspired reform agenda. While more must be done, significant progress has been made.

Mr. Chairman, the work of the international financial institutions has a broad impact. Every American, directly or indirectly, benefits from these institutions and has an interest in continuing to support them

Thank you.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

ADV 10:30 A.M. EDT
Remarks as prepared for delivery
May 21, 1996

RECORD TESTIMONY OF TREASURY SECRETARY ROBERT E. RUBIN
SENATE APPROPRIATIONS SUBCOMMITTEE ON FOREIGN OPERATIONS

Mr. Chairman and members of the Subcommittee: This morning I want to discuss our fiscal 1997 request for $1.4796 billion for the international financial institutions (IFIs). I have a longer statement which I'd like to submit for the record.

The IFIs are crucial in shaping a world of growth and prosperity from which all Americans can benefit. They effectively promote the growth, development and reform in developing and transitional economies that creates new and growing markets for our exports, and thereby better jobs and living standards for Americans, and that furthers our national security. Forty percent of our exports, some $235 billion, go into developing economies assisted by the IFIs. Some $20 billion of those exports go to nations now borrowing from the International Development Association (IDA), and countries which have completed IDA programs bought $48 billion in U.S. exports in 1994. It is enormously in our self-interest that the programs of the IFIs be adequately funded.

The IFIs are rebuilding shattered economies. In Bosnia, the World Bank has been extraordinarily pro-active in assessing Bosnia's needs for postwar reconstruction. Plans to construct and transform nine economic sectors are moving forward. The European Bank for Reconstruction and Development is gearing up to help Bosnia's private sector get back on its feet. Our Executive Director, Lee Jackson, gave his life in that effort on Secretary Ron Brown's ill-fated mission. In a similar vein, the World Bank is equally active supporting peace in the Middle East.

The IFIs help debt-saddled nations. A decade ago, many Latin nations were in serious difficulty. The debt problem was immense. Today, after IFI support for budget and financial market reform, privatization and liberalization, Latin America has come to a new consensus to pursue market-based economies. Democracy has spread, U.S. commercial interests have thrived, and it is the world's second fastest growing region. That would not have happened without IFI support. The IFIs also now are at the forefront in helping the region address its vast social development needs.

RR-1087

The institutions support the transition from communism to free market democracy and are taking the lead in reforming the legal, regulatory and financial systems that have stifled entrepreneurship, investment, trade and efficiency.

The IFIs protect the global environment. For example, the North American Development Bank is preparing to finance environmental infrastructure work on both sides of the U.S. Mexico border. The IFIs also help protect Americans from deterioration of the global environment. At the urging of the United States, the IFIs have adopted strong environmental policies and significantly increased their investments in environmentally oriented projects. This supports our trade and commercial interests by raising developing countries' environmental standards as well as their use of environmentally efficient technology, an important growth area for U.S. industry. The Global Environment Facility is the primary institution for defining development strategies that are both pro-growth and pro-environment.

And in area after area, the IFIs have an important impact on Americans, because they directly influence growth, development and reform that means new and growing markets for our goods, and better jobs and living standards for Americans.

Moreover, these institutions further our key foreign policy goals, and our international economic policy aims, by directly contributing to economic and political stability in areas important to our national security. They are the international community's economic tools for times of crisis, and they also help fulfil U.S. obligations under international agreements, such as the climate change convention. In Mexico, the Middle East, Bosnia, Haiti, or wherever crisis lies around the corner, the institutions can concentrate highly leveraged economic assistance -- to be blunt, a great deal of other people's money and a little of ours. They can direct the long-term reforms that are necessary. Beyond their role in crisis management, the IFIs are tools to create growth, open and integrate markets, and address the global problems of endemic poverty, environmental degradation, mass refugee flows, and unsustainable population growth which are too large for any one nation to address alone.

As the Clinton Administration exercises a policy of global leadership and engagement in a period of unprecedented change and extraordinary opportunity, the IFIs make a difference for America. It is imperatively in our long-term economic, environmental and national security interests to support these institutions vigorously.

Our participation in the IFIs is at a crossroads. We cannot unilaterally set the policies and priorities for the IFIs. We must rely on leadership and persuasion to advance our development agenda. The reductions made in FY 1996 funding for the IFIs are severely undermining U.S. credibility and leverage throughout the multilateral financial system. We most honor our international commitments to ensure our capacity to continue to have the ability to so greatly influence IFI policy. At the same time, we must also set priorities since budget resources are scarce.

1. Priority Objectives

The Administration's FY 1997 budget request of just under $1.48 billion for the IFIs and debt reduction programs is a carefully crafted approach intended to achieve five priority objectives:

- maintain a major and vital U.S. leadership role in system in which we have a major investment, and on which we increasingly rely;

- build on an impressive record of success in shaping IFI lending programs and priorities to serve critical U.S. economic, political and commercial interests;

- support cost-effective multilateral programs for poverty reduction, sustainable growth and market-building, which pay high long-term dividends both at home, in terms of jobs and higher living standards for Americans, and abroad;

- reinvigorate policy reform efforts and sustained economic growth by extracting the poorest countries from the spiral of escalating debt; and,

- meet existing U.S. financial commitments to the IFIs with minimal further delay.

The Administration is committed to achieving these goals with less budget resources than in the past. We have framed a medium-term approach that reduces U.S. expenditures on the IFIs through FY 2002, without harming our interests or forcing a budget-led withdrawal from the world. We recognize your concern that the United States get the most for its investment in these institutions.

The United States, with voting shares ranging from less than 6 percent in the African Development Bank to over 30 percent in the Inter-American Development Bank, does not have the voting power unilaterally to set the policies and priorities that influence IFI lending. This requires skillful U.S. leadership and persuasion to advance our development agenda.

While financial support is not the only determining factor of member influence in the IFIs, it is particularly important. The U.S. share of IFI financing has been declining, and given our budget realities, this trend is likely to continue. Key European countries and Japan have become aggressive in their efforts to increase their own policy influence to a level more commensurate with the increased support they are providing to the institutions. The significant funding reductions approved by the Congress in FY 1996 severely undermine U.S. credibility and leverage throughout the multilateral financial system.

2. Responding to U.S. Policy Concerns

We recognize, as do you, that these institutions, for as much good as they are doing, have their shortcomings, which we are using our leadership to remedy. The institutions have been extremely responsive to an ambitious U.S.-inspired reform agenda. While more must be done, significant progress has been made to: improve lending quality and portfolio performance; strengthen efforts to promote private sector development; deepening support for poverty reduction; increase transparency, accountability and public participation; integrate environmental considerations into development programs; and improve management efficiency and institutional responsiveness.

For example, IFI operations and projects have adopted much higher standards for transparency, accountability, public participation and environmental sustainability. Ordinary citizens now have important new information about, and an important new voice in, the development activities of their own governments.

Moreover, they are shifting the focus of development efforts to the private sector wherever possible. They are sharpening attention on human resource investments rather than infrastructure, establishing sensible environmental regulation, working to improve primary education, especially for girls, to improve primary health care and to provide safe water supplies. These are areas in which there is no realistic prospect, at least in the medium term, for private sector or bilateral investments.

Other changes in IFI operations include the development of comprehensive policy guidelines; restructuring for institutional efficiency; the preparation of detailed country assistance strategies, including an examination of borrowers' spending priorities encompassing military expenditures; the systematic incorporation of private sector development objectives in operations; and the revision of procurement guidelines and policies.

Mr. Chairman, no shareholder has pressed more aggressively than the United States for the IFIs to address these important concerns and adapt their operations to new realities.

Looking ahead, our priorities are to ensure effective implementation of the reforms, to make further progress in reorienting the institutions toward private sector development and social needs, and to encourage greater institutional activism in reducing military expenditures, promoting basic worker rights, and combating bribery and corruption. A continued forceful U.S. presence in the institutions -- both financially and intellectually -- is central to continued success.

I would like to stress that there are clearly defined U.S. national interests for both bilateral and multilateral lending programs. Each has different comparative advantages depending on the U.S. objectives they are intended to meet. The efforts of these programs to promote free markets and reduce poverty complement, rather than substitute for, each other.

3. FY 1997 Request for the IFIs and Debt Programs

Three factors have shaped our budget request for FY 1997:

- The first is the deep backlog in U.S. commitments -- some $1.5 billion, created by deep funding cuts in MDB and debt reduction accounts. In the current fiscal year, funding was 51% below the Administration's request and 38% below the FY 1995 appropriated level.

- A commitment to meet our existing funding commitments to, and remain effectively engaged in, the international financial institutions, and to deliver on our pledge to participate in international debt relief efforts.

- A commitment to lower future U.S. contributions to the institutions, leading to substantial further reductions in the IFI/debt accounts through FY 2002.

The Administration's budget request for FY 1997 is an effort to achieve these objectives in a balanced, prudent and realistic manner that merits congressional support. U.S. interests, U.S. credibility, and the future U.S. role in the international financial system are all on the line. The specifics of our request are in an attached table.

World Bank Group -- $1041.2 million

- $934.5 million to meet the full amount of outstanding and overdue U.S. commitments to the IDA-10 replenishment.

- $6.7 million to meet an outstanding and overdue U.S. commitment to the International Finance Corporation (IFC).

- $100 million for the Global Environment Facility (GEF), leaving overdue commitments of $67.5 million.

Our investment in the GEF serves our short- and long-term economic and environmental security interests both effectively and inexpensively. The bulk of future threats to the global environment comes from developing countries, and the GEF plays a key role in our efforts to avert those threats. The GEF also provides important procurement opportunities for U.S. companies. U.S. firms dominate markets for many cutting edge environmental technologies, and these are key growth sectors worldwide. U.S. firms are major players in biotechnology and low-impact resource extraction. Our firms will benefit from the GEF's portfolio of sustainable resource use projects.

Asian Development Bank Group -- $113.2 million

- $100 million for the Asian Development Fund (ADF), a partial payment on a 1991 replenishment commitment, leaving an outstanding and overdue commitment of $237 million.

- $13.2 million for a scheduled capital subscription payment for the Asian Development Bank (ADB) capital increase agreed in 1994.

It is imperative that we maintain the current level of funding for the Asian Development Fund. The ADF operates in a region that is home to two-thirds of the world's poor. The ADF faces its challenges by taking the lead, for example, in developing strategies that enhance child nutrition and encourage governments in the region to invest more in children, particularly education. We owe the ADF $337 million, putting us fully two years behind schedule. Contributing to the ADF yields important dividends. U.S. firms are number one among donor countries in winning ADB procurement contracts. Last year, U.S. firms won $320 million in contracts. More important is the follow-on business. The $2 trillion developing Asian economy -- a $1 trillion market for exports -- offers enormous opportunities for U.S. business, and U.S. exports to developing Asia have virtually tripled since 1987.

Inter-American Development Bank Group -- $84.5 million

- $31.4 million for the Inter-American Bank's Fund for Special Operations (FSO), comprising a scheduled payment of $20.6 million and payment of overdue commitments amounting to $10.8 million.

- $27.5 million to the Inter-American Bank's Multilateral Investment Fund (MIF), leaving outstanding and overdue commitments of $178.8 million.

- $25.6 million for a scheduled capital subscription payment for the Inter-American Development Bank (IDB) capital increase agreed in 1994.

The 1994 IDB capital increase has ensured that the Bank can meet the region's needs by lending, at a sustainable level, over $7 billion a year. This includes concessional lending to the region's poorest nations. This means that the IDB will soon be able to operate without continued infusion of government funds, but still address U.S. policy priorities into the next century.

African Development Bank Group -- $66 million

- $50 million for the initial payment of a proposed $200 million U.S. share in the replenishment of the African Development Fund (AfDF), now under negotiation.

- $16 million for an initial payment of an approximately $135 million paid-in portion of the U.S. capital subscription to an African Development Bank (AfDB) capital increase, now under negotiation.

Other International Financial Institutions -- $127.7 million

- $56.3 million for a scheduled capital subscription payment to the North American Development Bank (NADBank).

- $52.5 million for the first of five annual capital subscription payments to the new Bank for Reconstruction and Development in the Middle East and North Africa (MEDB).

- $11.9 million for the overdue and outstanding U.S. commitments under the initial European Development Bank (EBRD) capitalization agreed in 1990.

- $7 million toward the $75 million outstanding U.S. commitment to the International Monetary Fund's Enhanced Structural Adjustment Facility (ESAF).

Debt Reduction Programs -- $47 million

- $47 million for debt reduction programs, including $22 million for the poorest countries and $25 million for Jordan.

4. Discussion of Specific Requests

International Development Association (IDA).

For the United States, as well as the 3 billion people living in the world's poorest countries, IDA is the single most important provider of concessional development assistance, as well as technical assistance and policy guidance.

Established at President Eisenhower's initiative in 1960, IDA provides funding and technical assistance primarily to promote open-market policy reform and to support priority social and human development investments such as primary education and health care, and critical infrastructure such as clean water and rural roads. IDA continues to sharpen its focus on these broad priorities, on the poorest countries which do not have access to alternative sources of finance, and on integrating environmental and market-building considerations systematically into its operations.

U.S. payments to IDA are currently being made in respect of the Bush Administration's $3.75 billion, three-year commitment to IDA's tenth replenishment (IDA-10). This Administration's FY 1996 funding request was sharply reduced in the legislative process. The $700 million appropriation for FY 1996 leaves $934.5 million still outstanding under on our IDA-10 commitment.

These circumstances figured prominently in international negotiations for a new multi-year replenishment of IDA (IDA-11), which were recently concluded. Our emphasis throughout the negotiations on the three following fundamental positions, developed in consultation with Congress, delayed the conclusion of the negotiations:

- clearing the outstanding $934.5 million U.S. commitment to IDA would be our first priority;

- we would not make any pledge to IDA-11 in advance of indications from Congress of what it would be prepared to consider;

- any new U.S. commitment to IDA will be substantially below past U.S. commitments.

The Administration's IDA request for FY 1997 and proposed approach for the years ahead specifically incorporate these important considerations.

- **For FY 1997, we are requesting the $934.5 million needed to pay down fully the existing and overdue IDA commitments.** This would not include any new U.S. funding for IDA-11, effectively delaying U.S. participation beyond the FY 1997 start-up date already committed by IDA's other donors. Other donors, however, did not want to disrupt IDA's operations by leaving a one-year gap in new funding. They therefore agreed to establish a one-year Interim Fund of approximately $3 billion, to help support IDA operations during fiscal 1997. These donors also agreed that procurement eligibility for IDA credits financed by the Interim Trust Fund should be limited to nationals of countries contributing to the fund and those member countries eligible to borrow from the World Bank. Projects funded by "regular" IDA resources will not be affected.

Treasury and the U.S. Executive Director's office are working closely with the World Bank to ensure that the selection of projects for Interim Trust Fund financing will be random, transparent and open.

Prior to July 1, there will be a random drawing of all IDA projects scheduled from Oct. 1, 1996, through June 30, 1997. The resulting list of projects selected for Trust Fund financing will be disseminated in early July. Treasury, based on its dialogue with U.S. private sector leaders, will ensure that this advance notification occurs. We will also conduct a detailed briefing for U.S. companies during the next two weeks on the administration of the Interim Trust Fund.

I should point out that projects funded by "regular" IDA resources will not be affected. None of the $934.5 million we are requesting for fiscal 1997 will be subject to these procurement restrictions. Moreover, $18.7 billion -- or 85 percent -- of the $22 billion in IDA lending projected for fiscal years 1997 through 1999 will be fully accessible to U.S. companies.

We've had discussions with a large number of U.S. private sector companies which are involved in exports, and I was there for part of the meeting. While they don't like the procurement limitation, they all recognize the much bigger issue is continuing to have reform and growth in developing countries, because that creates the export markets for our goods and services. I might also add that they have the same view we have, which is that if we refuse to participate in IDA all that will do is badly hurt IDA which is not in our interest and it will institutionalize our exclusion from procurement. They also believe, as we do, such a development would harm long-term U.S. export opportunities in emerging markets and give our global competitors an edge.

We have strongly opposed procurement restrictions and resisted their inclusion in funds in which the United States participates. Most donors participating in the Interim Trust Fund confront budgetary pressures similar or more serious than our own. For them, procurement restrictions are essential to generating domestic and political support for their participation.

- **We are also seeking Congressional concurrence with Administration commitments of $800 million to IDA-11 in each of FY 1998 and FY 1999.** We believe that a commitment of $800 million to IDA-11 in each of 1998 and 1999 is consistent with congressional views. This commitment of $1.6 billion for the 3-year IDA period is less than half our pledge to IDA-10. A new U.S. annual commitment of $800 million to IDA would be the lowest such commitment in nominal terms since 1980, and the lowest commitment in real terms since 1974.

While this approach has weakened the U.S. leadership role, if this funding proposal is implimented, IDA will continue and the United States will be able to maintain an effective role. This approach is also consistent with congressional concerns and budgetary realities.

Debt Reduction

Several years ago, the global community recognized that over the past two to three decades many of the poorest countries in the world have accumulated external debts which would prove impossible for them to service. To break this negative cycle, and improve such countries' capacity to develop and grow, the United States and other creditor governments have pledged to reduce debts owed them by the poorest countries by as much as 67 percent, provided the debtor nation maintains its reform efforts. As in a corporate workout, for that small group of countries with truly unmanageable debt loads, the intent is to clear out part of the old debts, and help put these countries back on their feet -- for their benefit and ours.

To date, we have participated in Paris Club bilateral debt reduction for seven of the poorest countries whose outstanding debt we were holding. We expect others to become eligible for Paris Club treatment both this year and next. The budgetary costs of such programs will vary from year to year, but will remain extremely small, compared to the debt reduction effected. The Administration has requested $22 million to cover expected costs for FY 1997, which could leverage as much as $9.5 billion in debt reduction by all creditor governments. The potential benefits of debt reduction in terms of growing economies, export opportunities, long-term enhanced political stability, and hope for the future far outweigh the near-term cost to the United States and others. Indeed, our failure to act, if it leads to political turmoil and economic crisis, would be far more costly.

For some 10 to 20 of the world's poorest countries, however, even 67 percent reduction of debts owed to governments will not assure a manageable debt profile. For them, additional action will be necessary -- including measures to ease the burden of debt to international financial institutions. A comprehensive approach by creditor governments and multilateral institutions is therefore necessary. Neither we nor the multilateral institutions can afford to keep feeding a growing whirlpool of debt. We have strongly advocated timely action to put debtor countries back on a manageable path. We welcome the preliminary proposals of the World Bank and IMF, and seek more specific proposals from them in the coming weeks for our heads of state to consider at the G-7 Summit in Lyon, so that we can make final decisions as soon as possible.

In summary, U.S. participation in the International Financial Institutions deepens our engagement in the global economy, opens and strengthens developing markets that hold enormous prospect for our future economic growth, and contributes significantly to our economic and security interests. Whether it is a direct benefit, such as an export-related job, or an indirect benefit such as broad growth in our economy as a function of global growth, every American has a very important interest in vigorous U.S. participation in the international financial institutions.

Thank you.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Testimony of James E. Johnson
Assistant Secretary (Enforcement)
Department of the Treasury
before the
United States House of Representatives
Committee on the Judiciary

May 21, 1996

Mr. Chairman, Mr. Conyers, and members of the Committee, thank you for inviting me to testify about a series of investigations with which I have been personally involved. The string of recent arson incidents in African American churches in the southeast United States is of great concern to Treasury Secretary Robert Rubin, to me, to the Bureau of Alcohol, Tobacco and Firearms (ATF), and to the entire Department. The arson of a place of worship is repulsive to us as a society. These recent incidents are even more repugnant because they recall a time not too long ago when many African American churches were targeted by racists, and either dynamited or burned, to intimidate people and deprive them of a pivotal part of their spiritual and community lives.

During the 1950s and '60s, there was no federal agency with the specialized skill needed for investigating complex arson cases. We are fortunate today that ATF's expertise is available to assist state and local law enforcement authorities to solve these crimes. As Secretary Rubin has stated, bringing to justice each person who committed these atrocities is our paramount concern, and we will not be satisfied until we have done so. This hearing affords us the opportunity to discuss with the Congress and the American people the substantial efforts we have made to solve these arsons, and to set forth what the ATF--the federal government's primary arson investigator--is doing to accomplish this.

Before I proceed, however, I must make one point. As the Committee is aware, information relative to ongoing criminal investigations may not be publicly released before the investigation is concluded. ATF Director Magaw and I adhere, as all law enforcement officers must, to this important requirement. It will necessarily cause us to be circumspect in some of our statements and our answers to your questions. We will make every effort, consistent with our obligations regarding ongoing investigations, to further this goal. As these investigations are concluded and the perpetrators are brought to trial, we will be able to provide all information relevant to these investigations.

Main Treasury's Role

Since January 1995, there has been a significant and troubling increase in the number of fires set at southern African American churches. The ATF has responded to many of these fires and currently has 25 under investigation.

The Treasury Department has actively monitored these investigations since last year. Since my recent confirmation, the ATF has provided at my request daily updates on the status of the cases. I have visited the fire scenes of three of the burnings, received briefings from the agents personally involved in the investigation and have visited with and worshiped with the victims of these crimes. My staff and I meet regularly with the ATF managers who are directing the investigatory effort. Secretary Rubin has requested that I keep him abreast of all developments in these cases, and I brief him and his senior staff regularly on the status of the investigations.

Main Treasury has also worked cooperatively with the Department of Justice, just as the ATF and FBI have cooperated in the field. I have been in regular communication with Assistant Attorney General Patrick and the office of Deputy Attorney General Gorelick regarding these investigations, and I have worked to ensure that Treasury agents maintain open lines of communications with FBI agents and with the local United States Attorney's offices, as well as with state and local fire and law enforcement officials. By all reports these investigations have been textbook examples of inter-departmental coordination.

The ATF is the premier arson investigatory agency in this country. My office has reviewed the resources ATF has dedicated to these investigations. I anticipate that Director Magaw will describe those resources in detail during his testimony. I am confident that this level of resources is appropriate to solve these crimes and will not diminish ATF's ability to meet other law enforcement responsibilities. We will continue to evaluate the level of resources to make any appropriate adjustments as the investigations progress.

Recently, I traveled to Baker, Louisiana, where four churches were burned on one night in February 1996. Baker is a community of 13,600, with 42 ministers and many, many churches. The church is the institution at the heart of the community and it was clear to me that the fires hurt the community at its core. Last Sunday, I traveled to Greelyville, South Carolina, and worshiped with the congregation of Mount Zion A.M.E. Church. As I'm sure Reverend Mackey will tell you when he testifies, the Church stood for 90 years on the plot of land in the woods near Greelyville. All that was left when I visited Sunday was an ash-covered scar on the ground. Each of these visits confirmed for me what I know from my own experience, that the African American church is the cornerstone of its community and the fires struck at the heart of each of the communities.

As the Director will testify, the ATF, in addition to working to solve the crimes, has also mounted extensive outreach efforts. We understand that it is vitally important that we solve these crimes and let the community know that we are seriously engaged in the effort.

President Clinton and this Administration have made law enforcement a top priority, and we recognize the importance of this task when we sit down with those who have lost their churches to crime. The American people must know that the federal government will not allow such crimes to go unpunished. We will not allow people to be terrorized or intimidated. This is both our job and our moral duty.

As we have proceeded with this investigation, questions have been raised about the integrity of the investigation. Specifically, the question was raised about how a bureau that had persons involved in the Good O' Boys Roundup could be trusted to conduct these investigations. I'd like to address these concerns here.

The ATF is not an organization run by or influenced by Good O' Boys. Director Magaw has done an excellent job of leading ATF into a new era. In my short time on the job, I have personally benefitted from his insight and experience. I stand behind him and all of our law enforcement agents in full support and recognition of the dangerous and difficult work they do. The public must have similar confidence in our law enforcement agents, if the agents are to function effectively. As we all are aware, last July the Secretary of the Treasury heard of allegations that ATF agents had participated in what was described as a racist event in Ocoee, Tennessee. Secretary Rubin's response was swift. He ordered two reviews: facts/policy.

In early April, Treasury publicly released the results of its investigations into the Good O' Boys Roundups. The findings of the Department of the Treasury's Inspector General were unequivocal: no federal employee, past or present, engaged in any racist act at the Roundup. This finding was also reported by the Department of Justice's Inspector General, who conducted a parallel investigation.

But we did not rest there. Racist acts did occur at the Roundups. And because some of our agents--not only from the ATF but also from our other bureaus--witnessed such acts or chose repeatedly to attend the event, Secretary Rubin directed each Treasury law enforcement Bureau to review the findings of the Inspector General along with the personnel file of each employee to determine whether discipline or counseling would be appropriate.

Along with the factfinding report of the Inspector General, the Department released a major policy review of our hiring, training, evaluation, and disciplinary policies regarding the off-duty behavior of our law enforcement personnel. Secretary Rubin, Director Magaw and I fully supported the findings of this Review and endorsed its final report. The overarching message of the Review is that racism has no place in Treasury law enforcement, even if it is on off-duty time.

Still, we are committed not only to removing impropriety from our law enforcement Bureaus, but also the appearance of impropriety. Consulting with the Department of Justice, the Director determined that two agents who attended the Roundups in those years where racist activity had occurred should not continue to work on church fire investigations. These agents were reassigned even though the Inspector General found that they had not engaged in any racist acts and all indications were that they had been dedicated, impartial and professional in their work on these arson investigations. Moreover, we have monitored the staffing of the cases to ensure that no agents whom the Secretary recommended for disciplinary inquiry or counseling are assigned to any of these investigations.

We will continue doing everything possible to solve these arsons, and we will do so with professionalism. Our agents are committed to pursuing the evidence and bringing those responsible for such crimes to justice.

Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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REMARKS BY DEPUTY SECRETARY OF THE U.S. TREASURY
LAWRENCE H. SUMMERS
PARIS CLUB 40TH ANNIVERSARY CELEBRATION
MAY 21, 1996

RR-1089

TREASURY PRESS RELEASE
REMARKS BY
DEPUTY SECRETARY OF THE U.S. TREASURY
LAWRENCE H. SUMMERS
PARIS CLUB 40TH ANNIVERSARY CELEBRATION
May 21, 1996

One of the first issues that I was confronted with on the first working day of our Administration was Russian debt and how it should be handled in the Paris Club.

Under the leadership, then, of Jean-Claude Trichet and, since then, of Christian Noyer that issue has now -- hopefully -- been resolved in a comprehensive way and I want to thank them both on behalf of the United States for their efforts.

This "baptism-by-fire" was instructive -- even if it did make me think twice about what I was getting into.

Just the vocabulary alone was intimidating -- "date butoir," "assiette," "PRD," "moratorium interest," and on-and-on. It soon became apparent, however, that these terms were not meant to confuse, but had precise meaning and content. They formed a framework in which governments were collectively and effectively addressing debt problems of countries that were not in a position to honor their external obligations -- a failure that was jeopardizing the economic welfare of the countries that owed the debt, with possible repercussions for the international system as a whole.

Now, the Paris Club is 40-years old. This is slightly more than the half-life of the 3-score and 10 years of life that we are promised biblically. As such, many people, especially those of us that have passed that personal milestone, see such an occasion as one for introspection and an assessment of where we have been and where we are going.

It is a time not merely to congratulate ourselves on the past, but to make adjustments and to chart a course for the future.

The accomplishments of the Paris Club, particularly in the last 20-years under the 3 chairmen present here today (Camdessus, Trichet, Noyer), are substantial:

-- 65 countries have been treated;

-- there have been over 250 separate rescheduling agreements; and,

-- more than $275 billion in debt payments have been rescheduled or reduced.

But, rather than patting ourselves on the back for these achievements, we should look at what we have learned and what it means for the direction of debt policy in the future. These are the issues that I want to address today.

First, policies matter and sound, consistent macroeconomic policies are essential in

avoiding, and if that is not possible, in solving debt problems.

The Paris Club has always recognized this through the economic conditionality of its agreements. Our goal in the Paris Club has been not just to get some payments from debtor countries in the short-term, but mainly to help the country itself to lay the ground-work for eventual repayment of the maximum amount possible. Accordingly, we have stressed the explicit link between the Paris Club and IMF-supported adjustment programs.

Second, the Paris Club, the international institutions, and the governments that participate in them have been and must continue to be dynamic and adaptive in their practices on debt.

The character of international debt has shifted dramatically over the last three decades -- from the large run-up in commercial bank lending in the 1970s, to the shift to a larger role for official institutions in the 1980s as banks reduced exposure and bilateral credit guarantees were exercised, to the marked trend toward securitization in the 1990s.

This has changed the basic nature of the debt rescheduling process and techniques that have been successful in the past may not be in the future. The recent G-10 report on the resolution of sovereign liquidity crises is significant in this regard. It highlights very clearly that investors must recognize and be prepared to deal with the risks of their investments.

Even in the absence of a new, generalized debt crisis, many countries -- including those that have graduated from the Paris Club remain vulnerable to external imbalances.

In particular:

-- Paris Club creditors should consider maintaining -- in cooperation with the IMF and World Bank -- a continuing data base, even for countries that have graduated from rescheduling, in order to be able to judge the full extent of their exposure and be ready to respond quickly.

-- Creditors will need to reconsider the iterative process they have used in which some countries return for successive rounds of rescheduling and the fundamental sustainability of the debt is not addressed. The Paris Club needs more ultimate graduates. It is one international organization where less activity is a sign of success.

-- Creditors will need to examine on a continuous basis the scope and breadth of their actions.

Third, the Paris Club cannot act alone.

The Club is now at the brink of considering what steps should be taken when even our most dramatic actions under Naples terms aren't enough to bring the debt of the poorest countries down to sustainable levels.

During the past year and a half, the IMF and the World Bank have undertaken a full review of the external debt problems of the poorest countries. They found that a number of the poorest countries will not achieve debt sustainability -- even after Club action on Naples Terms.

-- According to Bank and Fund analysis, some 8 to 20 countries face this prospect.

-- The list includes countries that are on the right track and have demonstrated sustained reform efforts.

-- For these countries, solid macro policies and aggressive Paris Club action just aren't enough.

A clear example is the case of Mozambique. This country now has a debt/export ratio in net present value terms which exceeds 1,000%. Yet even after 67% Paris Club debt reduction and an additional 10 years of sustained economic reforms, with very optimistic assumptions of real GDP growth of more than 5% per year and export growth of 7-8% annually, Mozambique's debt burdens will still exceed sustainable levels. For a country undertaking major efforts of nation-building, additional external support will be essential to assure that such efforts produce a sustainable debt profile within a reasonable timeframe.

The Bank and the Fund recognize that this problem must be addressed. This is a major step forward by the IFIs. For too long, both we and they have focused on near term financing of balance of payments needs, and have ignored the longer-term impact on future debt burdens. Without a comprehensive effort to reduce debt to sustainable levels, the debt problems of the poorest countries will continue to monopolize both monetary and human resources, to undermine initiative, and to discourage investors.

-- Resources are monopolized when the benefits of reform efforts are siphoned off to service external debts, rather than domestic growth and incomes -- and when national officials have to devote months of every year to negotiate annual reschedulings and new financing, rather than focusing on developing and implementing sound policies at home.

-- Initiative is undermined when continuous adjustment programs don't produce light at the end of the tunnel: the country may now be 10 rather than 20 feet under water, but it is still drowning. Assuring a debt profile that will be manageable well into the future can provide tangible proof of progress for the markets and foreign creditors.

-- Investors are discouraged when they have no certainty that productive investments will result in real returns, due to a shortage of foreign exchange and prior requirements to service external debt.

The Bank and the Fund also recognize that it will take the joint efforts of creditor governments and the multilateral institutions to solve this problem.

We have outlined five key principles that we believe should guide us in addressing the debt problem of the poorest countries:

-- First, our objective should be to attain -- and maintain -- debt sustainability for these countries through a combination of debt relief and management of new debt. Within the Paris Club, we may need to consider both broader and deeper action for these countries to assure debt sustainability.

-- Second, eligible countries should receive debt reduction only in conjunction with a strong, multi-year program of reform. We are contemplating dramatic steps. These can only come in concert with equally dramatic commitment to economic reform on the part of the countries involved.

-- Third, there must be clarity at the outset about the extent of debt relief and the time period for its provision. If exceptional efforts produce exceptional results, debtor nations shouldn't be penalized in terms of less debt reduction. Otherwise, the debtors will have no incentive to implement difficult reform efforts.

-- Fourth, multilateral action should complement and be coordinated with that of Paris Club creditors. Once it is clear that the current implementation of Naples Terms is not enough for an individual country, we must craft a course of action that coordinates multilateral and Paris Club action.

-- And, finally, multilateral institutions can and should depend heavily on their own resources for the debt relief they provide. Development banks should practice what they preach to other financial institutions and address loans that have gone bad.

In this vein, Jim Wolfensohn has placed a courageous proposal on the table for a trust fund -- administered by IDA -- that would prepay or service part of the multilateral obligations of eligible countries. The United States endorses this proposal, and eagerly awaits its elaboration, as well as the selective use of IDA grants where appropriate.

-- We encourage other multilateral institutions to contribute to this fund or to find other ways to take comparable action. This effort is not going to succeed unless they participate on an equitable basis.

The IMF must also play an active role through strong conditionality, increased loans where appropriate, and increased concessionality on ESAF loans for poorest countries with particularly heavy multilateral debt burdens. ESAF loans with extended terms of as long as 20 years could be used to refinance outstanding amounts of IMF debt. This could go a long way to help meet the debt relief needs of these countries.

Of course, the scope to provide improved terms cannot be considered in isolation of the the total amount of resources available to carry the ESAF forward. Mobilizing sufficient resources will not be an easy task, and it will be essential to make more efficient use of resources already available to the IMF. One such resource is gold, which does not now earn a return for the IMF. Proposals to invest a portion of the IMF's gold and to direct the income earned to the ESAF merit our close consideration. I am convinced this could be accomplished without impinging upon the IMF's financial strength.

We all look forward to seeing proposals from the Bank and the Fund on the steps that they are considering taking. The sooner the better. It truly would be a proud achievement if the Paris Club's 40th year could also be the year that we all agreed to chart the course to true debt sustainability for the most heavily indebted poor countries.

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DEPARTMENT OF THE TREASURY

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EMBARGOED UNTIL 2:30 P.M.
May 21, 1996

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $28,000 million, to be issued May 30, 1996. This offering will provide about $1,500 million of new cash for the Treasury, as the maturing 13-week and 26-week bills are outstanding in the amount of $26,508 million. In addition to the maturing 13-week and 26-week bills, there are $18,580 million of maturing 52-week bills. The disposition of this latter amount was announced last week.

Federal Reserve Banks hold $12,485 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $6,454 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $5,614 million of the original 13-week and 26-week issues.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

RR-1090

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED MAY 30, 1996

		May 21, 1996
Offering Amount	$14,000 million	$14,000 million
Description of Offering:		
Term and type of security	91-day bill	183-day bill
CUSIP number	912794 3E 2	912794 3Q 5
Auction date	May 28, 1996	May 28, 1996
Issue date	May 30, 1996	May 30, 1996
Maturity date	August 29, 1996	November 29, 1996
Original issue date	February 29, 1996	May 30, 1996
Currently outstanding	$12,401 million	- - -
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:	
Noncompetitive bids	Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids
Competitive bids	(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%. (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater. (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.
Maximum Recognized Bid at a Single Yield	35% of public offering
Maximum Award	35% of public offering
Receipt of Tenders:	
Noncompetitive tenders	Prior to 12:00 noon Eastern Daylight Saving time on auction day
Competitive tenders	Prior to 1:00 p.m. Eastern Daylight Saving time on auction day
Payment Terms	Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

ERRATA

Monthly Treasury Statement

of Receipts and Outlays of the United States Government

For Fiscal Year 1996 Through April 30, 1996, and Other Periods

Attention is called to the following corrections on the pages and columns indicated:

Table 3. Summary of Receipts and Outlays of the U.S. Government ($ millions) page 5	**Current Fiscal Year to Date**
Budget Receipts	
Individual income taxes	401,196
should be	401,096

Table 4. Receipts of the U.S. Government ($ millions) page 6	**Current Fiscal Year to Date**
	Receipts
Total--Individual income taxes	401,196
should be	401,096

Table 7. Receipts and Outlays of the U.S. Government by Month ($ millions) page 26	**Fiscal Year To Date**
Receipts:	
Individual income taxes	401,196
should be	401,096

Table 9. Summary of Receipts by Source, and Outlays by Function of the U.S. Government ($ millions) Page 29	**Fiscal Year To Date**
RECEIPTS	
Individual income taxes	401,196
should be	401,096

Monthly Treasury Statement

of Receipts and Outlays
of the United States Government

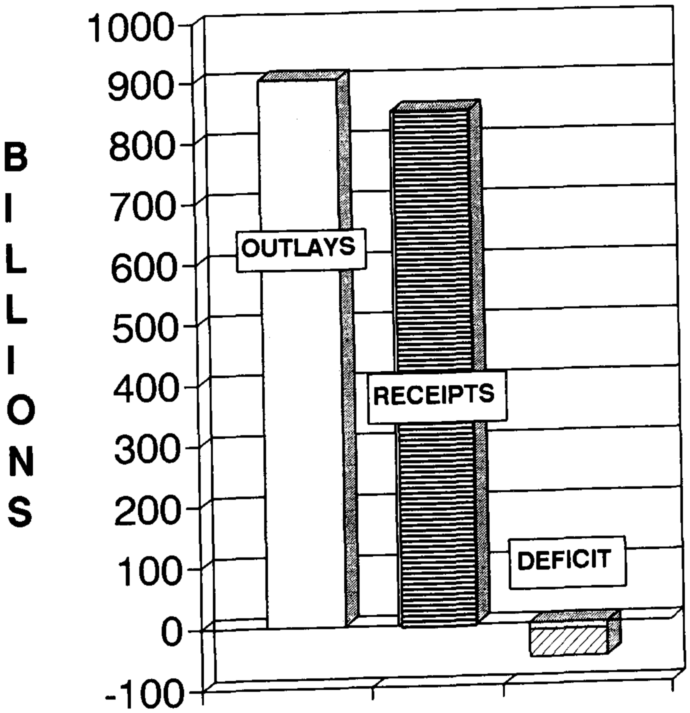
For Fiscal Year 1996 Through **April 30, 1996,** and Other Periods

Highlight

This month's publication has been realigned to the *FY 1997 Budget,* released by the Office of Management and Budget on March 19, 1996.

The impact of large individual tax deposits resulted in budget receiots of $203.4 billion and a surplus of $72.4 billion, a record high for each category.

RECEIPTS, OUTLAYS, AND SURPLUS/DEFICIT THROUGH APRIL 1996



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Federal trust funds/securities, page 28

Receipts by source/outlays by function, page 29

Explanatory notes, page 30

Compiled and Published by

Department of the Treasury
Financial Management Service

Introduction

The *Monthly Treasury Statement of Receipts and Outlays of the United States Government (MTS)* is prepared by the Financial Management Service, Department of the Treasury, and after approval by the Fiscal Assistant Secretary of the Treasury, is normally released on the 15th workday of the month following the reporting month. The publication is based on data provided by Federal entities, disbursing officers, and Federal Reserve banks.

Audience

The *MTS* is published to meet the needs of: Those responsible for or interested in the cash position of the Treasury; Those who are responsible for or interested in the Government's budget results; and individuals and businesses whose operations depend upon or are related to the Government's financial operations.

Disclosure Statement

This statement summarizes the financial activities of the Federal Government and off-budget Federal entities conducted in accordance with the Budget of the U.S. Government, i.e., receipts and outlays of funds, the surplus or deficit, and the means of financing the deficit or disposing of the surplus. Information is presented on a modified cash basis: receipts are accounted for on the basis of collections; refunds of receipts are treated as deductions from gross receipts; revolving and management fund receipts, reimbursements and refunds of monies previously expended are treated as deductions from gross outlays; and interest on the public debt (public issues) is recognized on the accrual basis. Major information sources include accounting data reported by Federal entities, disbursing officers, and Federal Reserve banks.

Triad of Publications

The *MTS* is part of a triad of Treasury financial reports. The *Daily Treasury Statement* is published each working day of the Federal Government. It provides data on the cash and debt operations of the Treasury based upon reporting of the Treasury account balances by Federal Reserve banks. The *MTS* is a report of Government receipts and outlays, based on agency reporting. The *U.S. Government Annual Report* is the official publication of the detailed receipts and outlays of the Government. It is published annually in accordance with legislative mandates given to the Secretary of the Treasury.

Data Sources and Information

The Explanatory Notes section of this publication provides information concerning the flow of data into the *MTS* and sources of information relevant to the *MTS*.

Table 1. Summary of Receipts, Outlays, and the Deficit/Surplus of the U.S. Government, Fiscal Years 1995 and 1996, by Month

[$ millions]

Period	Receipts	Outlays	Deficit/Surplus (−)
FY 1995			
October	89,024	120,365	31,342
November	87,673	124,915	37,242
December	130,810	135,613	4,803
January	131,801	116,166	−15,635
February	82,544	120,899	38,355
March	92,532	143,074	50,543
April	165,392	115,673	−49,720
May	90,405	129,958	39,553
June	147,868	135,054	−12,814
July	92,749	106,328	13,579
August	96,560	130,411	33,851
September	143,221	135,978	−7,243
Year-to-Date	**1,350,578**	**1,514,434**	**163,856**
FY 1996			
October	95,593	118,352	22,758
November	90,008	128,458	38,450
December	138,271	132,984	−5,286
January	142,922	123,647	−19,274
February	89,349	133,644	44,295
March	89,011	136,286	47,275
April	203,386	130,993	−72,393
Year-to-Date	**848,540**	**904,365**	**55,825**

[1] The receipt, outlay and deficit figures differ from the *FY 1997 Budget*, released by the Office of Management and Budget on March 19, 1996 by $64 million due mainly to revisions in data following the release of the Final September Monthly Treasury Statement.

Table 2. Summary of Budget and Off-Budget Results and Financing of the U.S. Government, April 1996 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Budget Estimates Full Fiscal Year[1]	Prior Fiscal Year to Date (1995)	Budget Estimates Next Fiscal Year (1997)[1]
Total on-budget and off-budget results:					
Total receipts	203,386	848,540	1,426,775	779,775	1,495,238
On-budget receipts	160,774	635,152	1,059,334	574,908	1,107,223
Off-budget receipts	42,613	213,389	367,441	204,867	388,015
Total outlays	130,993	904,365	1,572,411	876,706	1,635,329
On-budget outlays	105,131	732,935	1,270,292	712,142	1,317,655
Off-budget outlays	25,863	171,431	302,119	164,564	317,674
Total surplus (+) or deficit (−)	+72,393	−55,825	−145,636	−96,931	−140,091
On-budget surplus (+) or deficit (−)	+55,643	−97,783	−210,958	−137,233	−210,432
Off-budget surplus (+) or deficit (−)	+16,750	+41,958	+65,322	+40,303	+70,341
Total on-budget and off-budget financing	−72,393	55,825	145,636	96,931	140,091
Means of financing:					
Borrowing from the public	−35,466	78,332	165,272	97,977	164,326
Reduction of operating cash, increase (−)	−26,449	−10,374	−2,051	−2,127	......
By other means	−10,478	−12,133	−17,585	1,081	−24,235

[1]These figures are based on the *FY 1997 Budget*, released by the Office of Management and Budget on March 19, 1996.

... No Transactions.

Note: Details may not add to totals due to rounding.

Figure 1. Monthly Receipts, Outlays, and Budget Deficit/Surplus of the U.S. Government, Fiscal Years 1995 and 1996

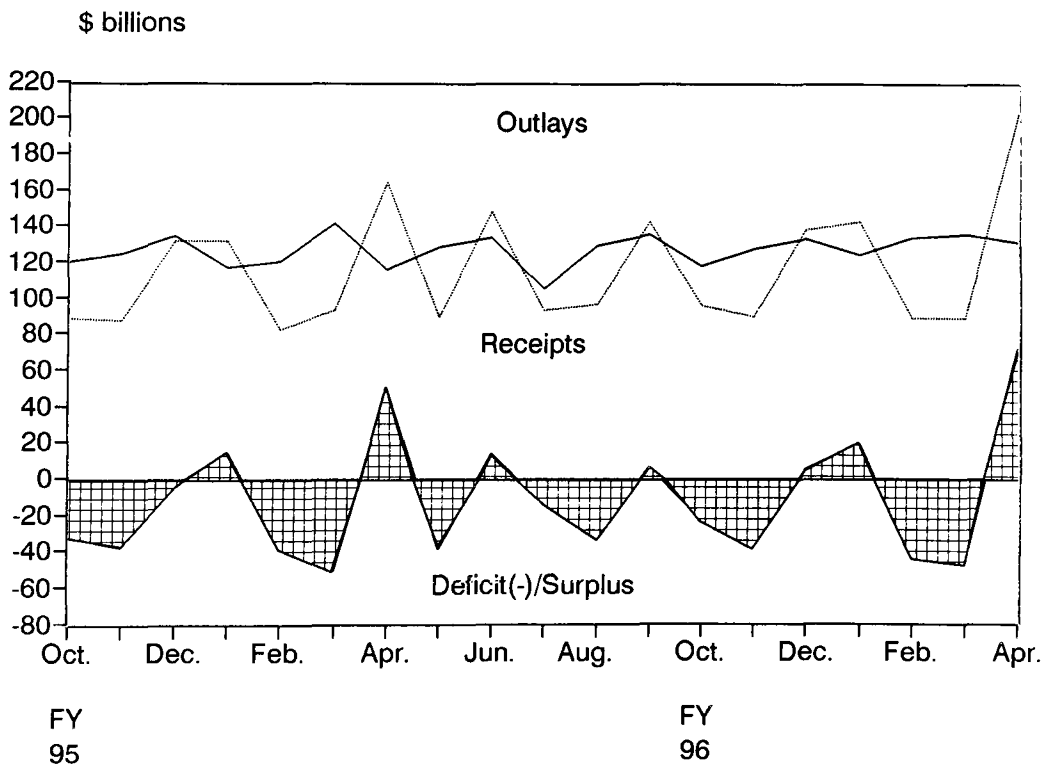

Figure 2. Monthly Receipts of the U.S. Government, by Source, Fiscal Years 1995 and 1996

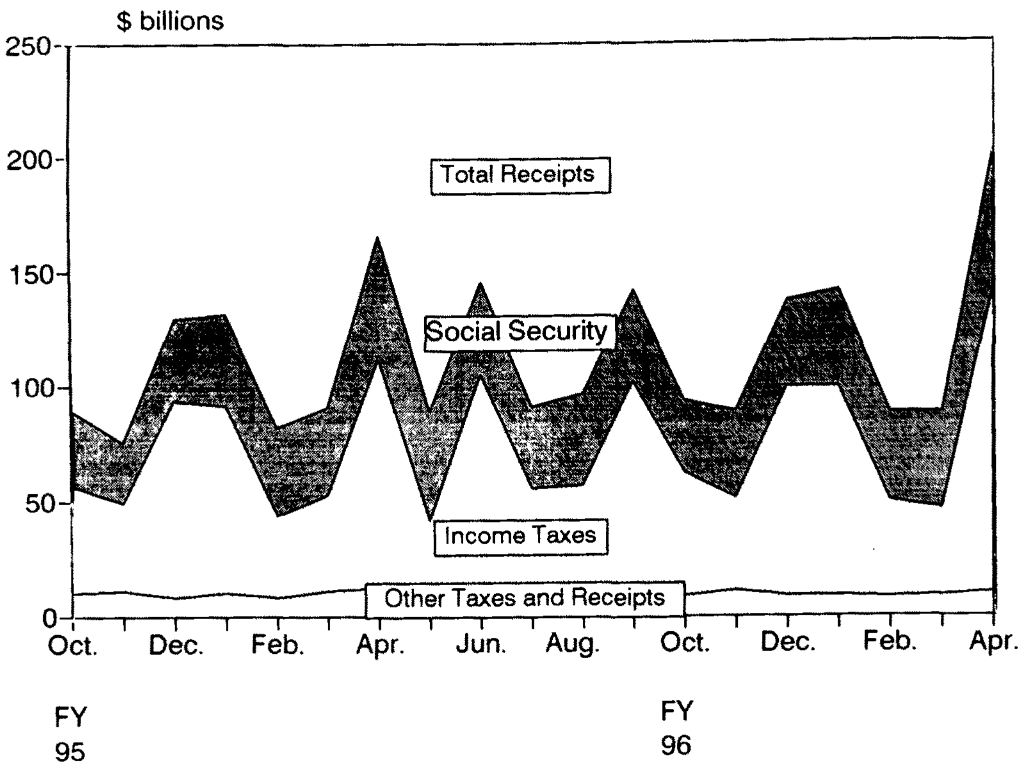

Figure 3. Monthly Outlays of the U.S. Government, by Function, Fiscal Years 1995 and 1996

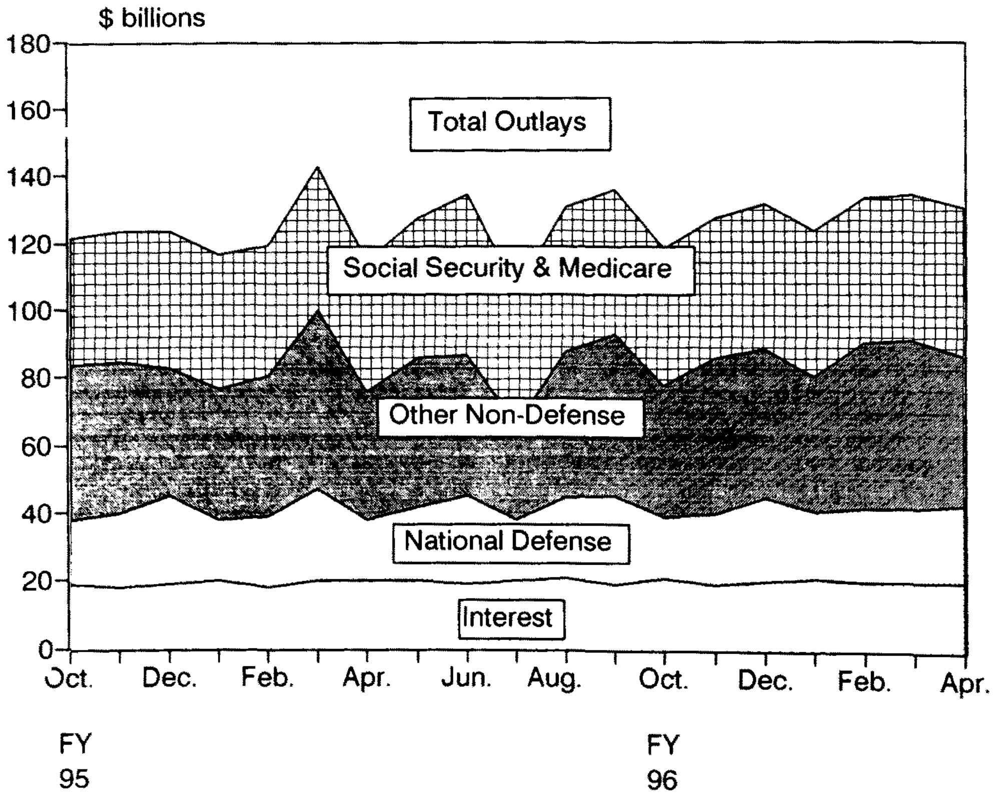

Table 3. Summary of Receipts and Outlays of the U.S. Government, April 1996 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Comparable Prior Period	Budget Estimates Full Fiscal Year[1]
Budget Receipts				
Individual income taxes	107,513	401,196	351,121	630,873
Corporation income taxes	24,937	89,142	80,132	167,108
Social insurance taxes and contributions:				
Employment taxes and contributions (off-budget)	42,613	213,389	204,867	367,441
Employment taxes and contributions (on-budget)	14,002	63,655	59,617	105,745
Unemployment insurance	3,628	11,889	11,632	29,810
Other retirement contributions	346	2,640	2,629	4,539
Excise taxes	4,577	31,736	32,282	53,886
Estate and gift taxes	2,704	10,110	8,559	15,924
Customs duties	1,388	10,671	11,214	19,313
Miscellaneous receipts	1,680	14,212	17,723	32,136
Total Receipts	**203,386**	**848,540**	**779,775**	**1,426,775**
(On-budget)	**160,774**	**635,152**	**574,908**	**1,059,334**
(Off-budget)	**42,613**	**213,389**	**204,867**	**367,441**
Budget Outlays				
Legislative Branch	172	1,301	1,642	2,695
The Judiciary	329	1,695	1,608	3,297
Executive Office of the President	19	118	130	206
Funds Appropriated to the President	828	7,185	7,172	10,445
Department of Agriculture	3,265	31,702	39,226	54,840
Department of Commerce	322	2,164	1,997	3,789
Department of Defense—Military	21,787	144,713	146,917	254,325
Department of Defense—Civil	2,683	18,877	18,249	32,255
Department of Education	2,356	17,451	18,181	30,404
Department of Energy	1,136	9,158	10,114	14,678
Department of Health and Human Services	27,852	182,887	171,436	327,429
Department of Housing and Urban Development	2,308	16,376	17,360	26,432
Department of the Interior	504	3,766	4,311	6,939
Department of Justice	1,020	6,616	6,134	12,964
Department of Labor	3,205	20,016	18,647	34,404
Department of State	357	2,823	3,464	5,500
Department of Transportation	2,885	21,452	21,682	38,994
Department of the Treasury:				
Interest on the Public Debt	21,481	192,433	182,868	344,628
Other	2,939	17,446	12,324	20,328
Department of Veterans Affairs	2,951	20,570	20,691	37,606
Environmental Protection Agency	494	3,553	3,569	6,329
General Services Administration	−739	851	−58	469
National Aeronautics and Space Administration	1,193	7,751	7,499	14,190
Office of Personnel Management	3,756	24,715	23,754	42,374
Small Business Administration	31	417	525	957
Social Security Administration	31,433	214,116	204,856	377,255
Other independent agencies	350	2,156	−2,074	9,192
Allowances	......	......	......	−647
Undistributed offsetting receipts:				
Interest	−990	−48,841	−46,130	−97,598
Other	−2,932	−19,102	−19,391	−42,268
Total outlays	**130,993**	**904,365**	**876,706**	**1,572,411**
(On-budget)	**105,131**	**732,935**	**712,142**	**1,270,292**
(Off-budget)	**25,863**	**171,431**	**164,564**	**302,119**
Surplus (+) or deficit (−)	**+72,393**	**−55,825**	**−96,931**	**−145,636**
(On-budget)	**+55,643**	**−97,783**	**−137,233**	**−210,958**
(Off-budget)	**+16,750**	**+41,958**	**+40,303**	**+65,322**

[1] These figures are based on the *FY 1997 Budget*, released by the Office of Management and Budget on March 19, 1996.

Note: Details may not add to totals due to rounding.

Table 4. Receipts of the U.S. Government, April 1996 and Other Periods

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Receipts	Refunds (Deduct)	Receipts	Gross Receipts	Refunds (Deduct)	Receipts	Gross Receipts	Refunds (Deduct)	Receipts
Individual income taxes:									
Withheld	[1]38,930			320,297			296,124		
Presidential Election Campaign Fund	13			38			40		
Other	[1]89,392			140,622			109,667		
Total—Individual income taxes	**128,335**	**20,822**	**107,513**	**460,957**	**59,861**	**401,196**	**405,831**	**54,711**	**351,121**
Corporation income taxes	**26,912**	**1,975**	**24,937**	**101,706**	**12,564**	**89,142**	**92,726**	**12,595**	**80,132**
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	[1]28,245	......	28,245	171,462	643	170,819	149,097	......	149,097
Self-Employment Contributions Act taxes	[1]7,935	......	7,935	10,203	......	10,203	10,920	......	10,920
Deposits by States	−1	......	−1	1	......	1	1	......	1
Other	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—FOASI trust fund	36,179	......	36,179	181,665	643	181,022	160,019	......	160,019
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	[1]5,033	......	5,033	30,544	119	30,424	42,310	......	42,310
Self-Employment Contributions Act taxes	[1]1,400	......	1,400	1,942	......	1,942	2,538	......	2,538
Receipts from railroad retirement account	......	......	......	......	......	......	......	......	......
Deposits by States	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Other	......	......	......	......	......	......	......	......	......
Total—FDI trust fund	6,433	......	6,433	32,486	119	32,367	44,848	......	44,848
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	[1]10,506	......	10,506	57,171	−13	57,184	52,626	......	52,626
Self-Employment Contributions Act taxes	[1]3,106	......	3,106	4,094	......	4,094	4,508	......	4,508
Receipts from Railroad Retirement Board	......	......	......	......	......	......	......	......	......
Deposits by States	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—FHI trust fund	13,612	......	13,612	61,265	−13	61,278	57,135	......	57,135
Railroad retirement accounts:									
Rail industry pension fund	220	−1	221	1,339	87	1,252	1,362	10	1,353
Railroad Social Security equivalent benefit	169	......	169	1,125	......	1,125	1,130	......	1,130
Total—Employment taxes and contributions	56,613	−1	56,615	277,881	836	277,044	264,494	10	264,484
Unemployment insurance:									
State taxes deposited in Treasury	2,129	......	2,129	8,723	......	8,723	8,897	......	8,897
Federal Unemployment Tax Act taxes	1,516	23	1,493	3,203	54	3,149	2,776	57	2,719
Railroad unemployment taxes	6	......	6	17	......	17	16	......	16
Railroad debt repayment	......	......	......	......	......	......	......	......	......
Total—Unemployment insurance	3,650	23	3,628	11,943	54	11,889	11,689	57	11,632
Other retirement contributions:									
Federal employees retirement – employee contributions	354	......	354	2,592	......	2,592	2,576	......	2,576
Contributions for non-federal employees	[2]−8	......	−8	48	......	48	54	......	54
Total—Other retirement contributions	346	......	346	2,640	......	2,640	2,629	......	2,629
Total—Social insurance taxes and contributions	**60,609**	**21**	**60,588**	**292,463**	**890**	**291,573**	**278,812**	**67**	**278,745**
Excise taxes:									
Miscellaneous excise taxes[3]	2,413	−209	2,621	16,991	−60	17,052	16,222	521	15,702
Airport and airway trust fund	......	......	......	1,490	16	1,474	3,019	21	2,998
Highway trust fund	2,171	267	1,904	13,527	662	12,865	13,643	421	13,222
Black lung disability trust fund	52	......	52	346	......	346	360	......	360
Total—Excise taxes	**4,635**	**58**	**4,577**	**32,354**	**618**	**31,736**	**33,245**	**963**	**32,282**
Estate and gift taxes	**2,746**	**42**	**2,704**	**10,350**	**240**	**10,110**	**8,787**	**229**	**8,559**
Customs duties	**1,498**	**110**	**1,388**	**11,329**	**657**	**10,671**	**12,184**	**970**	**11,214**
Miscellaneous Receipts:									
Deposits of earnings by Federal Reserve banks	1,421	......	1,421	11,765	......	11,765	15,270	......	15,270
All other	260	1	259	2,453	6	2,447	2,461	8	2,453
Total — Miscellaneous receipts	**1,681**	**1**	**1,680**	**14,218**	**6**	**14,212**	**17,731**	**8**	**17,723**
Total — Receipts	**226,416**	**23,029**	**203,386**	**923,376**	**74,836**	**848,540**	**849,316**	**69,541**	**779,775**
Total — On-budget	**183,803**	**23,029**	**160,774**	**709,225**	**74,074**	**635,152**	**644,449**	**69,541**	**574,908**
Total — Off-budget	**42,613**	......	**42,613**	**214,151**	**763**	**213,389**	**204,867**	......	**204,867**

[1] In accordance with the provisions of the Social Security Act as amended. "Individual Income Taxes Withheld" have been decreased and "Federal Insurance Contributions Act Taxes" correspondingly increased by $5,217 million to correct estimates for the quarter ending March 31, 1996. "Individual Income Taxes, Other" have been decreased and "Self Employment Contributions Act Taxes" correspondingly increased by $358 million to correct estimates for calendar year 1993 and prior.

[2] Includes a prior period adjustment.

[3] Includes amounts for the windfall profits tax pursuant to P.L. 96-223.

... No Transactions.

(* *) Less than $500,000.

Note: Details may not add to totals due to rounding.

Table 5. Outlays of the U.S. Government, April 1996 and Other Periods

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Legislative Branch:									
Senate	35	(* *)	35	247	1	245	249	1	248
House of Representatives	70	(* *)	70	423	1	422	425	1	424
Joint items	6	......	6	46	......	46	45	......	45
Congressional Budget Office	2	......	2	13	......	13	12	......	12
Architect of the Capitol	14	1	13	92	4	88	108	5	104
Library of Congress	14	......	14	184	......	184	481	......	481
Government Printing Office:									
Revolving fund (net)	−11	......	−11	−9	......	−9	15	......	15
General fund appropriations	9	......	9	57	......	57	57	......	57
General Accounting Office	35	......	35	241	......	241	234	......	234
United States Tax Court	2	......	2	18	......	18	19	......	19
Other Legislative Branch agencies	2	......	2	15	......	15	19	......	19
Proprietary receipts from the public	......	5	−5	......	10	−10	......	8	−8
Intrabudgetary transactions	−1	......	−1	−12	......	−12	−8	......	−8
Total—Legislative Branch	**178**	**6**	**172**	**1,317**	**16**	**1,301**	**1,658**	**15**	**1,642**
The Judiciary:									
Supreme Court of the United States	2	......	2	16	......	16	15	......	15
Courts of Appeals, District Courts, and other judicial services	317	(* *)	317	1,614	3	1,611	1,529	3	1,527
Other	10	......	10	67	......	67	67	......	67
Total—The Judiciary	**329**	**(* *)**	**329**	**1,698**	**3**	**1,695**	**1,611**	**3**	**1,608**
Executive Office of the President:									
Compensation of the President and the White House Office	4	......	4	23	......	23	22	......	22
Office of Management and Budget	5	......	5	32	......	32	33	......	33
Other	9	......	9	63	......	63	76	......	76
Total—Executive Office of the President	**19**	**......**	**19**	**118**	**......**	**118**	**130**	**......**	**130**
Funds Appropriated to the President:									
International Security Assistance:									
Foreign military loan program	16	19	−3	244	327	−83	523	356	167
Foreign military financing program	91	......	91	2,293	......	2,293	2,563	......	2,563
Economic support fund and International fund for Ireland	68	......	68	1,735	......	1,735	2,195	......	2,195
Peacekeeping Operations	5	......	5	30	......	30	49	......	49
Other	4	......	4	16	......	16	16	......	16
Proprietary receipts from the public	......	21	−21	......	471	−471	......	415	−415
Total—International Security Assistance	183	40	143	4,318	798	3,520	5,346	771	4,575
International Development Assistance:									
Multilateral Assistance:									
Contribution to the International Development Association	232	......	232	859	......	859	743	......	743
International organizations and programs	32	......	32	117	......	117	418	......	418
Other	78	......	78	414	......	414	267	......	267
Total—Multilateral Assistance	342	......	342	1,389	......	1,389	1,429	......	1,429
Agency for International Development:									
Sustainable development assistance program	145	......	145	823	......	823	689	......	689
Assistance for Eastern Europe and the Baltic States	26	......	26	198	......	198	212	......	212
Assistance for the new independent States of the Former Soviet Union	74	......	74	430	......	430	490	......	490
Development fund for Africa	36	......	36	337	......	337	435	......	435
Operating expenses	37	......	37	272	......	272	296	......	296
Payment to the Foreign Service retirement and disability fund	......	......	......	44	......	44	45	......	45
Other	23	4	18	170	36	134	157	26	131
Proprietary receipts from the public	......	55	−55	......	478	−478	......	470	−470
Intrabudgetary transactions	(* *)	......	(* *)	(* *)	......	(* *)	......	......	......
Total—Agency for International Development	340	59	281	2,274	515	1,759	2,324	496	1,828
Overseas Private Investment Corporation	5	10	−5	45	156	−111	27	129	−103
Peace Corps	18	......	18	115	......	115	131	......	131
Other	−10	......	−10	33	......	33	52	......	52
Total—International Development Assistance	696	70	626	3,856	671	3,186	3,962	626	3,337
International Monetary Programs	117	......	117	560	......	560	−909	......	−909
Military Sales Programs:									
Special defense acquisition fund	2	7	−5	30	60	−30	99	115	−17
Foreign military sales trust fund	1,129	......	1,129	8,260	......	8,260	7,553	......	7,553
Kuwait civil reconstruction trust fund	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Proprietary receipts from the public	......	1,189	−1,189	......	8,338	−8,338	......	7,381	−7,381
Other	6	......	6	26	......	26	15	......	15
Total—Funds Appropriated to the President	**2,134**	**1,306**	**828**	**17,052**	**9,867**	**7,185**	**16,066**	**8,894**	**7,172**

Table 5. Outlays of the U.S. Government, April 1996 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Agriculture:									
Agricultural Research Service	57	......	57	429	......	429	433	......	433
Cooperative State Research Education and Extension Service:									
Cooperative state research activities	36	......	36	237	......	237	253	......	253
Extension activities	32	......	32	222	......	222	258	......	258
Other	2	......	2	16	......	16	26	......	26
Animal and Plant Health Inspection Service	45	......	45	275	......	275	295	......	295
Food Safety and Inspection Service	42	......	42	295	......	295	296	......	296
Agricultural Marketing Service	21	......	21	422	......	422	493	......	493
Farm Service Agency:									
Salaries and expenses	60	......	60	316	......	316	407	......	407
Conservation programs	6	......	6	1,785	......	1,785	1,813	......	1,813
Federal crop insurance corporation fund	37	2	36	1,356	345	1,011	475	449	27
Commodity Credit Corporation:									
Price support and related programs	248	796	−548	7,144	4,886	2,259	14,786	5,813	8,973
National Wool Act Program	......	......	......	−1	......	−1	99	......	99
Agricultural credit insurance fund	55	77	−22	372	858	−486	723	983	−260
Other	1	......	1	9	......	9	152	......	152
Total—Farm Service Agency	407	874	−467	10,983	6,089	4,894	18,455	7,245	11,209
Natural Resources Conservation Service:									
Conservation operations	56	......	56	362	......	362	333	......	333
Watershed and flood prevention operations	22	......	22	143	......	143	165	......	165
Other	19	......	19	93	......	93	62	......	62
Rural Utilities Service:									
Rural water and waste disposal fund	26	......	26	238	......	238	189	......	189
Rural electrification and telephone fund	308	451	−143	1,489	2,319	−829	1,459	1,719	−260
Rural development insurance fund	117	54	63	454	295	159	504	266	238
Other	5	48	−43	93	151	−58	50	118	−68
Rural housing and Community Development Service:									
Rural housing insurance fund	154	273	−120	1,729	1,559	171	2,079	1,456	624
Rental assistance program	41	......	41	277	......	277	248	......	248
Other	53	......	53	−54	......	−54	−217	......	−217
Foreign Agricultural Service	75	......	75	311	......	311	610	......	610
Food and Consumer Service:									
Food stamp program	2,170	......	2,170	15,003	......	15,003	15,195	......	15,195
State child nutrition programs	705	......	705	5,081	......	5,081	4,752	......	4,752
Women, infants and children programs	299	......	299	2,179	......	2,179	2,007	......	2,007
Other	48	......	48	319	......	319	346	......	346
Total—Food and Consumer Service	3,222	......	3,222	22,583	......	22,583	22,300	......	22,300
Forest Service:									
National forest system	113	......	113	757	......	757	758	......	758
Firefighting and protection funds	25	......	25	194	......	194	376	......	376
Forest service permanent appropriations	29	......	29	501	......	501	532	......	532
Other	76	......	76	410	......	410	392	......	392
Total—Forest Service	242	......	242	1,861	......	1,861	2,057	......	2,057
Other	49	3	45	278	23	256	298	22	276
Proprietary receipts from the public	......	58	−58	......	553	−553	......	593	−593
Intrabudgetary transactions	−5	......	−5	−50	......	−50	(* *)	......	(* *)
Total—Department of Agriculture	**5,026**	**1,761**	**3,265**	**42,689**	**10,988**	**31,702**	**50,646**	**11,420**	**39,226**
Department of Commerce:									
Economic Development Administration	38	1	38	272	6	266	195	8	187
Bureau of the Census	36	......	36	182	......	182	187	......	187
Promotion of Industry and Commerce	29	......	29	187	......	187	211	......	211
Science and Technology:									
National Oceanic and Atmospheric Administration	180	1	179	1,211	6	1,205	1,137	12	1,125
National Institute of Standards and Technology	30	......	30	302	......	302	243	......	243
Other	12	3	10	50	17	33	74	18	57
Total—Science and Technology	222	4	218	1,563	23	1,540	1,454	30	1,424
Other	12	......	12	65	......	65	62	(* *)	62
Proprietary receipts from the public	......	11	−11	......	75	−75	......	73	−73
Intrabudgetary transactions	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Offsetting governmental receipts	......	......	......	......	......	......	......	......	......
Total—Department of Commerce	**338**	**15**	**322**	**2,267**	**104**	**2,164**	**2,108**	**111**	**1,997**

Table 5. Outlays of the U.S. Government, April 1996 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Defense—Military:									
Military personnel:									
Department of the Army	1,980	......	1,980	13,394	......	13,394	13,819	......	13,819
Department of the Navy	1,995	......	1,995	13,481	......	13,481	14,457	......	14,457
Department of the Air Force	1,546	......	1,546	10,253	......	10,253	10,418	......	10,418
Total—Military personnel	5,522	......	5,522	37,127	......	37,127	38,694	......	38,694
Operation and maintenance:									
Department of the Army	1,933	......	1,933	12,722	......	12,722	12,833	......	12,833
Department of the Navy	1,871	......	1,871	12,763	......	12,763	13,189	......	13,189
Department of the Air Force	1,840	......	1,840	13,349	......	13,349	13,975	......	13,975
Defense agencies	1,954	......	1,954	11,571	......	11,571	11,174	......	11,174
Total—Operation and maintenance	7,598	......	7,598	50,404	......	50,404	51,172	......	51,172
Procurement:									
Department of the Army	686	......	686	4,046	......	4,046	4,343	......	4,343
Department of the Navy	1,537	......	1,537	11,038	......	11,038	14,202	......	14,202
Department of the Air Force	1,723	......	1,723	10,374	......	10,374	12,563	......	12,563
Defense agencies	254	......	254	2,070	......	2,070	2,264	......	2,264
Total—Procurement	4,201	......	4,201	27,529	......	27,529	33,371	......	33,371
Research, development, test, and evaluation:									
Department of the Army	404	......	404	2,991	......	2,991	2,892	......	2,892
Department of the Navy	904	......	904	5,220	......	5,220	5,606	......	5,606
Department of the Air Force	1,094	......	1,094	7,339	......	7,339	7,188	......	7,188
Defense agencies	777	......	777	4,929	......	4,929	4,465	......	4,465
Total—Research, development, test and evaluation	3,179	......	3,179	20,480	......	20,480	20,150	......	20,150
Military construction:									
Department of the Army	200	......	200	650	......	650	534	......	534
Department of the Navy	47	......	47	308	......	308	495	......	495
Department of the Air Force	86	......	86	704	......	704	753	......	753
Defense agencies	291	......	291	2,232	......	2,232	1,929	......	1,929
Total—Military construction	625	......	625	3,894	......	3,894	3,711	......	3,711
Family housing:									
Department of the Army	109	......	109	740	......	740	675	......	675
Department of the Navy	115	......	115	774	......	774	609	......	609
Department of the Air Force	88	......	88	601	......	601	592	......	592
Defense agencies	10	8	2	80	44	36	87	28	59
Revolving and management funds:									
Department of the Army	19	......	19	82	......	82	−29	......	−29
Department of the Navy	162	......	162	728	......	728	123	......	123
Department of the Air Force	......	......	......	......	......	......	......	......	......
Defense agencies:									
Defense business operations fund	296	......	296	2,272	......	2,272	−1,406	......	−1,406
Other	5	1	4	−18	3	−22	−102	2	−104
Trust funds:									
Department of the Army	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Department of the Navy	2	1	1	23	11	12	17	3	14
Department of the Air Force	1	1	(* *)	5	5	(* *)	(* *)	(* *)	(* *)
Defense agencies	10	......	10	104	......	104	143	......	143
Proprietary receipts from the public:									
Department of the Army	......	31	−31	......	241	−241	......	194	−194
Department of the Navy	......	36	−36	......	113	−113	......	147	−147
Department of the Air Force	......	−2	2	......	175	−175	......	737	−737
Defense agencies	......	47	−47	......	101	−101	......	223	−223
Intrabudgetary transactions:									
Department of the Army	1	......	1	50	......	50	33	......	33
Department of the Navy	−3	......	−3	733	......	733	403	......	403
Department of the Air Force	−33	......	−33	94	......	94	103	......	103
Defense agencies	1	......	1	−289	......	−289	−96	......	−96
Offsetting governmental receipts:									
Department of the Army	......	......	......	......	7	−7	......	1	−1
Defense agencies	......	......	......	......	(* *)	(* *)	......	(* *)	(* *)
Total—Department of Defense—Military	**21,909**	**122**	**21,787**	**145,413**	**700**	**144,713**	**148,251**	**1,334**	**146,917**

Table 5. Outlays of the U.S. Government, April 1996 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Defense—Civil									
Corps of Engineers:									
Construction, general	73	......	73	598	......	598	616	......	616
Operation and maintenance, general	69	......	69	616	......	616	795	......	795
Other	98	......	98	1,018	......	1,018	818	......	818
Proprietary receipts from the public	......	17	−17	......	95	−95	......	73	−73
Total—Corps of Engineers	240	17	223	2,233	95	2,138	2,228	73	2,155
Military retirement:									
Payment to military retirement fund	......	......	......	10,699	......	10,699	11,470	......	11,470
Military retirement fund	2,439	......	2,439	16,681	......	16,681	16,001	......	16,001
Intrabudgetary transactions	......	......	......	−10,699	......	−10,699	−11,470	......	−11,470
Education benefits	16	......	16	28	......	28	57	......	57
Other	6	(* *)	5	42	2	40	46	2	44
Proprietary receipts from the public	......	1	−1	......	10	−10	......	7	−7
Total—Department of Defense—Civil	**2,701**	**18**	**2,683**	**18,984**	**107**	**18,877**	**18,332**	**83**	**18,249**
Department of Education:									
Office of Elementary and Secondary Education:									
Education for the disadvantaged	690	......	690	4,195	......	4,195	4,057	......	4,057
Impact aid	287	......	287	583	......	583	638	......	638
School improvement programs	130	......	130	793	......	793	844	......	844
Other	35	......	35	207	......	207	66	......	66
Total—Office of Elementary and Secondary Education	1,142	......	1,142	5,777	......	5,777	5,605	......	5,605
Office of Bilingual Education and Minority Languages Affairs	25	......	25	111	......	111	125	......	125
Office of Special Education and Rehabilitative Services:									
Special education	343	......	343	2,050	......	2,050	1,940	......	1,940
Rehabilitation services and disability research	189	......	189	1,392	......	1,392	1,349	......	1,349
Special institutions for persons with disabilities	10	......	10	64	......	64	84	......	84
Office of Vocational and Adult Education	143	......	143	959	......	959	940	......	940
Office of Postsecondary Education:									
College housing loans	(* *)	11	−11	5	35	−31	14	45	−31
Student financial assistance	476	......	476	4,548	......	4,548	4,685	......	4,685
Higher education	52	......	52	455	......	455	456	......	456
Howard University	18	......	18	102	......	102	127	......	127
Federal direct student loan program	17	......	17	420	......	420	317	......	317
Federal family education loans	−99	......	−99	1,115	......	1,115	2,146	......	2,146
Other	−1	......	−1	(* *)	......	(* *)	−3	......	−3
Total—Office of Postsecondary Education	462	11	452	6,644	35	6,609	7,742	45	7,697
Office of Educational Research and Improvement	38	......	38	262	......	262	239	......	239
Departmental management	30	......	30	268	......	268	250	......	250
Proprietary receipts from the public	......	15	−15	......	42	−42	......	49	−49
Total—Department of Education	**2,381**	**26**	**2,356**	**17,528**	**77**	**17,451**	**18,274**	**93**	**18,181**
Department of Energy:									
Atomic energy defense activities	904	......	904	6,902	......	6,902	6,972	......	6,972
Energy programs:									
General science and research activities	98	......	98	623	......	623	851	......	851
Energy supply, R and D activities	239	......	239	1,783	......	1,783	1,906	......	1,906
Uranium supply and enrichment activities	14	......	14	71	......	71	62	......	62
Fossil energy research and development	33	......	33	268	......	268	254	......	254
Energy conservation	52	......	52	379	......	379	368	......	368
Strategic petroleum reserve	19	......	19	137	......	137	124	......	124
Clean coal technology	......	......	......	......	......	......	......	......	......
Nuclear waste disposal fund	14	......	14	127	......	127	194	......	194
Uranium enrichment decontamination and decommissioning fund	24	......	24	144	......	144	180	......	180
Other	54	(* *)	54	360	1	359	384	1	384
Total—Energy programs	549	(* *)	549	3,891	1	3,890	4,325	1	4,324
Power Marketing Administration	129	204	−74	844	1,219	−375	1,043	1,166	−123
Departmental administration	50	......	50	243	......	243	282	......	282
Proprietary receipts from the public	......	283	−283	......	1,145	−1,145	......	1,059	−1,059
Intrabudgetary transactions	−9	......	−9	−353	......	−353	−272	......	−272
Offsetting governmental receipts	......	(* *)	(* *)	......	4	−4	......	9	−9
Total—Department of Energy	**1,623**	**487**	**1,136**	**11,527**	**2,369**	**9,158**	**12,348**	**2,234**	**10,114**

Table 5. Outlays of the U.S. Government, April 1996 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Health and Human Services:									
Public Health Service:									
Food and Drug Administration	75	(* *)	75	456	2	453	484	3	482
Health Resources and Services Administration	427	......	427	2,207	......	2,207	1,472	......	1,472
Indian Health Services	196	......	196	1,327	......	1,327	1,259	......	1,259
Centers for Disease Control and Prevention	180	......	180	1,388	......	1,388	1,037	......	1,037
National Institutes of Health	907	......	907	5,843	......	5,843	6,103	......	6,103
Substance Abuse and Mental Health Services Administration	212	......	212	1,150	......	1,150	1,393	......	1,393
Agency for Health Care Policy and Research	7	......	7	70	......	70	70	......	70
Total—Public Health Service	2,004	(* *)	2,004	12,441	2	12,438	11,818	3	11,816
Health Care Financing Administration:									
Grants to States for Medicaid	7,853	......	7,853	51,805	......	51,805	51,084	......	51,084
Payments to health care trust funds	6,435	......	6,435	41,061	......	41,061	27,792	......	27,792
Federal hospital insurance trust fund:									
Benefit payments	10,869	......	10,869	70,839	......	70,839	63,088	......	63,088
Administrative expenses	78	......	78	650	......	650	763	......	763
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Total—FHI trust fund	10,947	......	10,947	71,489	......	71,489	63,851	......	63,851
Federal supplementary medical insurance trust fund:									
Benefit payments	5,668	......	5,668	38,285	......	38,285	35,189	......	35,189
Administrative expenses	125	......	125	989	......	989	977	......	977
Total—FSMI trust fund	5,793	......	5,793	39,273	......	39,273	36,167	......	36,167
Other	15	......	15	23	......	23	-12	......	-12
Total—Health Care Financing Administration	31,043	......	31,043	203,652	......	203,652	178,882	......	178,882
Administration for Children and Families:									
Family support payments to States	1,532	......	1,532	10,156	......	10,156	10,143	......	10,143
Low income home energy assistance	121	......	121	775	......	775	1,079	......	1,079
Refugee and entrant assistance	31	......	31	209	......	209	205	......	205
Payments to States for the job opportunities and basic skills training program	115	......	115	566	......	566	563	......	563
Payments to States for the child care and development block grant	70	......	70	565	......	565	535	......	535
Social services block grant	202	......	202	1,596	......	1,596	1,660	......	1,660
Children and families services programs	427	......	427	2,969	......	2,969	2,950	......	2,950
Payments to States for foster care and adoption assistance	262	......	262	2,000	......	2,000	1,861	......	1,861
Other	[1]-32	......	-32	50	......	50	156	......	156
Total—Administration for Children and Families	2,729	......	2,729	18,886	......	18,886	19,153	......	19,153
Administration on aging	63	......	63	445	......	445	554	......	554
Other	66	......	66	347	......	347	352	......	352
Proprietary receipts from the public	......	1,618	-1,618	......	11,821	-11,821	......	11,529	-11,529
Intrabudgetary transactions:									
Payments for health insurance for the aged:									
Federal hospital insurance trust fund	......	......	......	......	......	......	......	......	......
Federal supplementary medical insurance trust fund	-4,718	......	-4,718	-37,633	......	-37,633	-24,392	......	-24,392
Payments for tax and other credits:									
Federal hospital insurance trust fund	-1,717	......	-1,717	-3,428	......	-3,428	-3,400	......	-3,400
Other	......	......	......	......	......	......	......	......	......
Total—Department of Health and Human Services	**29,470**	**1,619**	**27,852**	**194,710**	**11,823**	**182,887**	**182,968**	**11,532**	**171,436**

Table 5. Outlays of the U.S. Government, April 1996 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Housing and Urban Development:									
Housing programs:									
Public enterprise funds	5	5	(* *)	68	41	27	105	75	30
Credit accounts:									
Federal housing administration fund	1,136	1,551	−416	5,306	6,834	−1,528	3,793	3,561	232
Housing for the elderly or handicapped fund	272	55	217	489	348	141	543	378	165
Other	59	......	59	382	......	382	332	......	332
Rent supplement payments	5	......	5	62	......	62	95	......	95
Homeownership assistance	8	......	8	60	......	60	68	......	68
Rental housing assistance	47	......	47	374	......	374	380	......	380
Rental housing development grants	......	......	......	......	......	......	(* *)	......	(* *)
Low-rent public housing	47	......	47	444	......	444	461	......	461
Public housing grants	312	......	312	2,322	......	2,322	2,086	......	2,086
College housing grants	1	......	1	10	(* *)	10	10	(* *)	10
Lower income housing assistance	814	......	814	5,257	......	5,257	5,790	......	5,790
Section 8 contract renewals	506	......	506	3,422	......	3,422	2,890	......	2,890
Other	39	......	39	213	......	213	97	......	97
Total—Housing programs	3,250	1,611	1,638	18,409	7,223	11,185	16,652	4,013	12,639
Public and Indian Housing programs:									
Low-rent public housing—loans and other expenses	2	(* *)	2	246	187	59	257	197	60
Payments for operation of low-income housing projects	229	......	229	1,616	......	1,616	1,544	......	1,544
Community Partnerships Against Crime	19	......	19	133	......	133	92	......	92
Other	9	......	9	50	......	50	12	......	12
Total—Public and Indian Housing programs	259	(* *)	258	2,045	187	1,858	1,905	197	1,708
Government National Mortgage Association:									
Management and liquidating functions fund	......	......	......	......	(* *)	(* *)	......	(* *)	(* *)
Guarantees of mortgage-backed securities	16	57	−41	119	454	−334	216	470	−254
Total—Government National Mortgage Association	16	57	−41	119	454	−335	216	471	−254
Community Planning and Development:									
Community Development Grants	373	......	373	2,652	......	2,652	2,431	......	2,431
Home investment partnerships program	93	......	93	671	......	671	656	......	656
Other	30	8	22	212	67	144	185	69	116
Total—Community Planning and Development	496	8	488	3,534	67	3,467	3,273	69	3,204
Management and Administration	102	......	102	454	......	454	302	......	302
Other	5	......	5	30	......	30	35	......	35
Proprietary receipts from the public	......	142	−142	......	278	−278	......	267	−267
Offsetting governmental receipts	......	......	......	......	6	−6	......	5	−5
Total—Department of Housing and Urban Development	**4,127**	**1,819**	**2,308**	**24,592**	**8,215**	**16,376**	**22,383**	**5,023**	**17,360**
Department of the Interior:									
Land and Minerals Management:									
Bureau of Land Management:									
Management of lands and resources	46	......	46	322	......	322	378	......	378
Other	21	......	21	162	......	162	310	......	310
Minerals Management Service	53	......	53	375	......	375	410	......	410
Office of Surface Mining Reclamation and Enforcement	22	......	22	198	......	198	187	......	187
Total—Land and Minerals Management	142	......	142	1,058	......	1,058	1,285	......	1,285
Water and Science:									
Bureau of Reclamation:									
Construction program	11	......	11	138	......	138	168	......	168
Operation and maintenance	23	......	23	141	......	141	148	......	148
Other	41	14	26	232	80	151	243	109	133
United States Geological Survey	61	......	61	287	......	287	324	......	324
Other	23	2	21	191	15	176	198	16	183
Total—Water and Science	159	16	143	988	95	893	1,081	125	956
Fish and Wildlife and Parks:									
United States Fish and Wildlife Service	85	......	85	702	......	702	712	......	712
National Park Service	108	......	108	823	......	823	898	......	898
Total—Fish and Wildlife and Parks	193	......	193	1,525	......	1,525	1,610	......	1,610

Table 5. Outlays of the U.S. Government, April 1996 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Interior:—Continued									
Bureau of Indian Affairs:									
Operation of Indian programs	102	......	102	832	......	832	887	......	887
Indian tribal funds	14	......	14	153	......	153	170	......	170
Other	63	2	61	227	10	217	249	7	242
Total—Bureau of Indian Affairs	179	2	177	1,212	10	1,202	1,306	7	1,299
Insular affairs	21	......	21	195	......	195	360	......	360
Other departmental offices	18	......	18	73	......	73	57	......	57
Proprietary receipts from the public	......	141	−141	......	1,010	−1,010	......	1,090	−1,090
Intrabudgetary transactions	−49	......	−49	−169	......	−169	−162	......	−162
Offsetting governmental receipts	......	(* *)	(* *)	......	(* *)	(* *)	......	3	−3
Total—Department of the Interior	**663**	**159**	**504**	**4,882**	**1,116**	**3,766**	**5,536**	**1,225**	**4,311**
Department of Justice:									
General Administration:									
Community oriented policing services	21	......	21	135	......	135	212	......	212
Other	73	......	73	92	......	92	174	......	174
Legal activities	243	......	243	1,565	......	1,565	1,495	......	1,495
Federal Bureau of Investigation	196	......	196	1,307	......	1,307	1,214	......	1,214
Drug Enforcement Administration	92	......	92	450	......	450	561	......	561
Immigration and Naturalization Service	165	......	165	1,181	......	1,181	973	......	973
Federal Prison System	236	13	223	1,773	79	1,694	1,603	74	1,529
Office of Justice Programs	93	......	93	641	......	641	351	......	351
Other	20	......	20	82	......	82	118	......	118
Intrabudgetary transactions	−4	......	−4	−22	......	−22	−33	......	−33
Offsetting governmental receipts	......	103	−103	......	509	−509	......	460	−460
Total—Department of Justice	**1,136**	**116**	**1,020**	**7,204**	**588**	**6,616**	**6,668**	**534**	**6,134**
Department of Labor:									
Employment and Training Administration:									
Training and employment services	342	......	342	2,334	......	2,334	2,443	......	2,443
Community Service Employment for Older Americans	28	......	28	230	......	230	222	......	222
Federal unemployment benefits and allowances	28	......	28	176	......	176	113	......	113
State unemployment insurance and employment service operations	−35	......	−35	50	......	50	6	......	6
Advances to the unemployment trust fund and other funds	......	......	......	......	......	......	619	......	619
Unemployment trust fund:									
Federal-State unemployment insurance:									
State unemployment benefits	2,177	......	2,177	14,203	......	14,203	13,077	......	13,077
State administrative expenses	295	......	295	1,878	......	1,878	1,900	......	1,900
Federal administrative expenses	10	......	10	140	......	140	138	......	138
Veterans employment and training	13	......	13	90	......	90	105	......	105
Repayment of advances from the general fund	......	......	......	......	......	......	......	......	......
Railroad unemployment insurance	6	......	6	45	......	45	40	......	40
Other	1	......	1	11	......	11	11	......	11
Total—Unemployment trust fund	2,503	......	2,503	16,367	......	16,367	15,271	......	15,271
Other	6	......	6	43	......	43	52	......	52
Total—Employment and Training Administration	2,871	......	2,871	19,200	......	19,200	18,727	......	18,727
Pension Benefit Guaranty Corporation	81	19	62	566	743	−177	860	1,028	−168
Employment Standards Administration:									
Salaries and expenses	17	......	17	125	......	125	141	......	141
Special benefits	127	......	127	218	......	218	−152	......	−152
Black lung disability trust fund	45	......	45	316	......	316	335	......	335
Other	10	......	10	80	......	80	80	......	80
Occupational Safety and Health Administration	24	......	24	161	......	161	173	......	173
Bureau of Labor Statistics	18	......	18	144	......	144	165	......	165
Other	40	......	40	263	......	263	263	......	263
Proprietary receipts from the public	......	1	−1	......	4	−4	......	5	−5
Intrabudgetary transactions	−8	......	−8	−310	......	−310	−912	......	−912
Total—Department of Labor	**3,225**	**21**	**3,205**	**20,763**	**747**	**20,016**	**19,680**	**1,033**	**18,647**

Table 5. Outlays of the U.S. Government, April 1996 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of State:									
Administration of Foreign Affairs:									
Diplomatic and consular programs	133	......	133	1,044	......	1,044	906	......	906
Acquisition and maintenance of buildings abroad	44	......	44	315	......	315	309	......	309
Payment to Foreign Service retirement and disability fund	15	......	15	71	......	71	129	......	129
Foreign Service retirement and disability fund	40	......	40	268	......	268	263	......	263
Other	39	......	39	223	......	223	291	......	291
Total—Administration of Foreign Affairs	271	......	271	1,920	......	1,920	1,897	......	1,897
International organizations and Conferences	35	......	35	556	......	556	1,269	......	1,269
Migration and refugee assistance	50	......	50	332	......	332	415	......	415
Other	17	......	17	131	......	131	64	......	64
Proprietary receipts from the public	......	......	......	......	......	......	......	......	......
Intrabudgetary transactions	−16	......	−16	−116	......	−116	−182	......	−182
Offsetting governmental receipts	......	......	......	......	......	......	......	......	......
Total—Department of State	**357**	**......**	**357**	**2,823**	**......**	**2,823**	**3,464**	**......**	**3,464**
Department of Transportation:									
Federal Highway Administration:									
Highway trust fund:									
Federal-aid highways	1,396	......	1,396	10,485	......	10,485	9,967	......	9,967
Other	18	......	18	111	......	111	99	......	99
Other programs	16	......	16	124	......	124	107	......	107
Total—Federal Highway Administration	1,430	......	1,430	10,720	......	10,720	10,173	......	10,173
National Highway Traffic Safety Administration	20	......	20	146	......	146	154	......	154
Federal Railroad Administration:									
Grants to National Railroad Passenger Corporation	129	......	129	519	......	519	708	......	708
Other	31	1	30	169	7	162	118	6	111
Total—Federal Railroad Administration	159	1	159	687	7	680	825	6	819
Federal Transit Administration:									
Formula grants	166	......	166	517	......	517	319	......	319
Discretionary grants	169	......	169	1,272	......	1,272	1,146	......	1,146
Trust fund share of expenses	......	......	......	555	......	555	863	......	863
Other	19	......	19	173	......	173	297	......	297
Total—Federal Transit Administration	354	......	354	2,518	......	2,518	2,624	......	2,624
Federal Aviation Administration:									
Operations	146	......	146	1,365	......	1,365	1,246	......	1,246
Airport and airway trust fund:									
Grants-in-aid for airports	97	......	97	948	......	948	1,069	......	1,069
Facilities and equipment	206	......	206	1,354	......	1,354	1,508	......	1,508
Research, engineering and development	17	......	17	132	......	132	126	......	126
Trust fund share of operations	185	......	185	1,297	......	1,297	1,525	......	1,525
Total—Airport and airway trust fund	505	......	505	3,730	......	3,730	4,228	......	4,228
Other	(* *)	1	−1	(* *)	2	−2	(* *)	1	−1
Total—Federal Aviation Administration	651	1	650	5,096	2	5,094	5,474	1	5,473
Coast Guard:									
Operating expenses	211	......	211	1,420	......	1,420	1,420	......	1,420
Acquisition, construction, and improvements	30	......	30	203	......	203	148	......	148
Retired pay	43	......	43	325	......	325	310	......	310
Other	11	(* *)	11	117	3	114	170	3	167
Total—Coast Guard	294	(* *)	294	2,064	3	2,061	2,048	3	2,044
Maritime Administration	48	89	−41	355	249	106	411	182	229
Other	50	1	49	195	5	190	211	5	206
Proprietary receipts from the public	......	2	−2	......	4	−4	......	3	−3
Intrabudgetary transactions	−1	......	−1	5	......	5	(* *)	......	(* *)
Offsetting governmental receipts	......	26	−26	......	65	−65	......	38	−38
Total—Department of Transportation	**3,005**	**120**	**2,885**	**21,787**	**335**	**21,452**	**21,920**	**238**	**21,682**

Table 5. Outlays of the U.S. Government, April 1996 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Treasury:									
Departmental offices:									
Exchange stabilization fund	−220	18	−238	−1,025	88	−1,113	−1,700	12	−1,712
Other	−14	......	−14	191	......	191	126	......	126
Financial Management Service:									
Salaries and expenses	24	......	24	143	......	143	152	......	152
Payment to the Resolution Funding Corporation	587	......	587	1,751	......	1,751	1,751	......	1,751
Claims, judgements, and relief acts	47	......	47	487	......	487	428	......	428
Net interest paid to loan guarantee financing accounts	......	......	......	48	......	48	766	......	766
Other	[2]284	......	284	584	......	584	60	......	60
Total—Financial Management Service	943	......	943	3,014	......	3,014	3,158	......	3,158
Federal Financing Bank	−110	......	−110	−106	......	−106	−102	......	−102
Bureau of Alcohol, Tobacco and Firearms:									
Salaries and expenses	34	......	34	193	......	193	227	......	227
Internal revenue collections for Puerto Rico	11	......	11	125	......	125	118	......	118
United States Customs Service	153	......	153	1,071	......	1,071	1,043	......	1,043
Bureau of Engraving and Printing	−7	......	−7	26	......	26	40	......	40
United States Mint	35	139	−104	304	761	−457	−91	......	−91
Bureau of the Public Debt	14	......	14	165	......	165	177	......	177
Internal Revenue Service:									
Processing, assistance, and management	133	......	133	837	......	837	1,040	......	1,040
Tax law enforcement	312	......	312	2,399	......	2,399	2,409	......	2,409
Information systems	178	......	178	872	......	872	859	......	859
Payment where earned income credit exceeds liability for tax	2,766	......	2,766	16,593	......	16,593	11,221	......	11,221
Refunding internal revenue collections, interest	137	......	137	1,282	......	1,282	1,768	......	1,768
Other	(* *)	......	(* *)	(* *)	......	(* *)	2	......	2
Total—Internal Revenue Service	3,528	......	3,528	21,983	......	21,983	17,298	......	17,298
United States Secret Service	44	......	44	311	......	311	313	......	313
Comptroller of the Currency	51	26	25	238	217	22	245	197	47
Office of Thrift Supervison	10	25	−14	100	100	−1	97	80	17
Interest on the public debt:									
Public issues (accrual basis)	20,084	......	20,084	141,013	......	141,013	133,924	......	133,924
Special issues (cash basis)	1,397	......	1,397	51,420	......	51,420	48,944	......	48,944
Total—Interest on the public debt	21,481	......	21,481	192,433	......	192,433	182,868	......	182,868
Other	11	......	11	54	......	54	30	......	30
Proprietary receipts from the public	......	310	−310	......	2,387	−2,387	......	2,258	−2,258
Intrabudgetary transactions	−957	......	−957	−4,994	......	−4,994	−5,529	......	−5,529
Offsetting governmental receipts	......	68	−68	......	651	−651	......	579	−579
Total—Department of the Treasury	**25,007**	**587**	**24,420**	**214,082**	**4,204**	**209,879**	**198,319**	**3,127**	**195,193**

Table 5. Outlays of the U.S. Government, April 1996 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Veterans Affairs:									
Veterans Health Administration:									
Medical care	1,339	......	1,339	9,184	......	9,184	9,121	......	9,121
Other	37	16	21	346	115	231	401	160	242
Veterans Benefits Administration:									
Public enterprise funds:									
Guaranty and indemnity fund	−286	61	−347	212	374	−162	565	285	280
Loan guaranty revolving fund	72	30	42	272	199	73	318	240	78
Other	10	8	2	79	67	11	108	66	42
Compensation and pensions	1,575	......	1,575	9,288	......	9,288	8,946	......	8,946
Readjustment benefits	126	......	126	775	......	775	750	......	750
Post-Vietnam era veterans education account	5	......	5	27	......	27	39	......	39
Insurance funds:									
National service life	115	......	115	713	......	713	728	......	728
United States government life	1	......	1	9	......	9	10	......	10
Veterans special life	12	3	9	86	92	−6	86	92	−6
Other	2	......	2	12	......	12	16	......	16
Total—Veterans Benefits Administration	1,634	102	1,532	11,473	733	10,739	11,566	682	10,884
Construction	55	......	55	397	(* *)	396	380	(* *)	380
Departmental administration	89	......	89	563	......	563	654	......	654
Proprietary receipts from the public:									
National service life	......	20	−20	......	138	−138	......	160	−160
United States government life	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Other	......	64	−64	......	398	−398	......	415	−415
Intrabudgetary transactions	−1	......	−1	−7	......	−7	−15	......	−15
Total—Department of Veterans Affairs	**3,153**	**203**	**2,951**	**21,954**	**1,384**	**20,570**	**22,107**	**1,416**	**20,691**
Environmental Protection Agency:									
Program and research operations	(* *)	......	(* *)	44	......	44	516	......	516
Environmental programs and management	149	......	149	995	......	995	862	......	862
State and tribal assistance grants	200	......	200	1,538	......	1,538	1,338	......	1,338
Hazardous substance superfund	109	......	109	778	......	778	778	......	778
Other	300	(* *)	300	583	(* *)	583	510	(* *)	510
Proprietary receipts from the public	......	13	−13	......	128	−128	......	180	−180
Intrabudgetary transactions	−250	......	−250	−250	......	−250	−250	......	−250
Offsetting governmental receipts	......	1	−1	......	6	−6	......	5	−5
Total—Environmental Protection Agency	**508**	**14**	**494**	**3,688**	**134**	**3,553**	**3,755**	**185**	**3,569**
General Services Administration:									
Real property activities	−776	......	−776	605	......	605	−292	......	−292
Supply and technology activities	54	......	54	−28	......	−28	29	......	29
Information Technology Service	−18	......	−18	157	......	157	125	......	125
Other	(* *)	......	(* *)	132	......	132	79	......	79
Proprietary receipts from the public	......	(* *)	(* *)	......	15	−15	......	−1	1
Total—General Services Administration	**−739**	**(* *)**	**−739**	**867**	**15**	**851**	**−58**	**−1**	**−58**
National Aeronautics and Space Administration:									
Human space flight	470	......	470	3,064	......	3,064	1,345	......	1,345
Science, aeronautics and technology	446	......	446	2,678	......	2,678	861	......	861
Mission support	203	......	203	1,301	......	1,301	1,099	......	1,099
Research and development	18	......	18	353	......	353	2,705	......	2,705
Space flight, control and data communications	27	......	27	174	......	174	1,199	......	1,199
Construction of facilities	27	......	27	167	......	167	192	......	192
Research and program management	(* *)	......	(* *)	3	......	3	91	......	91
Other	2	......	2	10	......	10	9	......	9
Total—National Aeronautics and Space Administration	**1,193**	......	**1,193**	**7,751**	......	**7,751**	**7,499**	......	**7,499**
Office of Personnel Management:									
Government payment for annuitants, employees health and life insurance benefits	350	......	350	2,083	......	2,083	2,320	......	2,320
Payment to civil service retirement and disability fund	......	......	......	......	......	......	......	......	......
Civil service retirement and disability fund	3,371	......	3,371	22,913	......	22,913	22,220	......	22,220
Employees life insurance fund	136	204	−68	951	1,507	−557	938	1,452	−514
Employees and retired employees health benefits fund	1,383	1,286	97	9,224	8,954	270	8,996	9,277	−282
Other	8	......	8	22	......	22	29	......	29
Intrabudgetary transactions:									
Civil service retirement and disability fund:									
General fund contributions	......	......	......	......	......	......	......	......	......
Other	−2	......	−2	−16	......	−16	−19	......	−19
Total—Office of Personnel Management	**5,246**	**1,490**	**3,756**	**35,176**	**10,461**	**24,715**	**34,483**	**10,729**	**23,754**

Table 5. Outlays of the U.S. Government, April 1996 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Small Business Administration:									
Public enterprise funds:									
Business loan fund	34	41	–6	353	271	81	206	209	–3
Disaster loan fund	28	28	(* *)	251	196	55	324	143	181
Other	3	1	1	9	8	1	13	9	4
Other	36	(* *)	36	280	(* *)	280	343	(* *)	343
Total—Small Business Administration	**101**	**70**	**31**	**892**	**475**	**417**	**886**	**360**	**525**
Social Security Administration:									
Payments to Social Security trust funds	1,675	......	1,675	4,376	......	4,376	3,840	......	3,840
Special benefits for disabled coal miners	56	......	56	394	......	394	424	......	424
Supplemental security income program	2,390	......	2,390	14,017	......	14,017	13,148	......	13,148
Office of the Inspector General	2	......	2	6	......	6	......	......	......
Federal old-age and survivors insurance trust fund (off-budget):									
Benefit payments	25,154	......	25,154	173,843	......	173,843	167,028	......	167,028
Administrative expenses	188	......	188	1,016	......	1,016	980	......	980
Payment to railroad retirement account	......	......	......	......	......	......	......	......	......
Quinquennial military service credit adjustment	......	......	......	129	......	129	......	......	......
Total—FOASI trust fund	25,342	......	25,342	174,988	......	174,988	168,008	......	168,008
Federal disability insurance trust fund (off-budget):									
Benefit payments	3,678	......	3,678	24,764	......	24,764	23,020	......	23,020
Administrative expenses	73	......	73	586	......	586	645	......	645
Payment to railroad retirement account	......	......	......	......	......	......	......	......	......
Quinquennial military service credit adjustment	......	......	......	203	......	203	......	......	......
Total—FDI trust fund	3,751	......	3,751	25,553	......	25,553	23,665	......	23,665
Proprietary receipts from the public:									
On-budget	......	104	–104	......	496	–496	......	384	–384
Off-budget	......	4	–4	......	13	–13	......	6	–6
Intrabudgetary transactions:									
On-budget:									
Quinquennial Adjustment for Military Service Credits from FOASI and FDI:	......	......	......	–332	......	–332	......	......	......
Off-budget[3]	–1,675	......	–1,675	–4,376	......	–4,376	–3,839	......	–3,839
Total—Social Security Administration	**31,541**	**108**	**31,433**	**214,626**	**510**	**214,116**	**205,246**	**390**	**204,856**
Other independent agencies:									
Appalachian Regional Commission	8	......	8	69	1	69	95	......	95
Corporation for National and Community Service	45	......	45	265	......	265	243	......	243
Corporation for Public Broadcasting	......	......	......	275	......	275	286	......	286
District of Columbia:									
Federal payment	255	......	255	712	......	712	714	......	714
Other	2	......	2	3	12	–9	5	12	–7
Equal Employment Opportunity Commission	26	(* *)	26	130	(* *)	130	143	(* *)	142
Export-Import Bank of the United States	253	326	–74	473	1,013	–540	883	583	300
Federal Communications Commission	11	5	7	96	15	81	92	30	62
Federal Deposit Insurance Corporation:									
Bank insurance fund	82	213	–132	704	1,556	–852	1,500	6,344	–4,844
Savings association insurance fund	4	37	–33	39	587	–548	26	545	–520
FSLIC resolution fund:									
Resolution trust corporation closeout	189	559	–370	705	6,167	–5,462	3,292	9,825	–6,533
Other	......	19	–19	803	496	307	1,188	661	527
Affordable housing and bank enterprise	(* *)	......	(* *)	1	......	1	3	......	3
Total—Federal Deposit Insurance Corporation	275	828	–553	2,253	8,806	–6,553	6,010	17,376	–11,366
Federal Emergency Management Agency:									
Public enterprise funds	103	25	78	595	167	428	275	197	78
Disaster relief	152	......	152	1,195	......	1,195	1,445	......	1,445
Emergency management planning and assistance	20	......	20	136	......	136	155	......	155
Other	17	......	17	140	10	130	182	6	176
Federal Trade Commission	10	......	10	57	......	57	48	......	48
Legal Services Corporation	23	......	23	141	......	141	261	......	261
National Archives and Records Administration	19	(* *)	19	112	(* *)	112	130	(* *)	130
National Credit Union Administration:									
Credit union share insurance fund	4	141	–136	97	192	–95	–13	196	–209
Central liquidity facility	......	......	......	......	......	......	5	5	(* *)
Other	–24	(* *)	–24	–38	3	–41	–8	3	–11

Table 5. Outlays of the U.S. Government, April 1996 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Other independent agencies:—Continued									
National Endowment for the Arts	14	......	14	86	......	86	105	......	105
National Endowment for the Humanities	9	......	9	82	......	82	94	......	94
National Labor Relations Board	16	......	16	94	......	94	104	......	104
National Science Foundation	242	......	242	1,579	......	1,579	1,462	......	1,462
Nuclear Regulatory Commission	47	58	−10	290	293	−3	311	289	21
Panama Canal Commission	49	61	−13	347	385	−37	323	358	−35
Postal Service:									
Public enterprise funds (off-budget)	4,053	[4]4,773	−721	30,534	33,750	−3,217	28,574	32,130	−3,556
Payment to the Postal Service fund	21	......	21	101	......	101	107	......	107
Railroad Retirement Board:									
Federal windfall subsidy	19	......	19	138	......	138	149	......	149
Federal payments to the railroad retirement accounts	63	......	63	165	......	165	172	......	172
Rail industry pension fund:									
Benefit payments	235	......	235	1,650	......	1,650	1,634	......	1,634
Advances from FOASDI fund	−93	......	−93	−648	......	−648	−640	......	−640
OASDI certifications	93	......	93	648	......	648	640	......	640
Administrative expenses	6	......	6	40	......	40	42	......	42
Interest on refunds of taxes	−11	......	−11	11	......	11	16	......	16
Other	(* *)	......	(* *)	3	......	3	4	......	4
Intrabudgetary transactions:									
Payments from other funds to the railroad retirement trust funds	......	......	......	......	......	......	......	......	......
Other	−63	......	−63	−165	......	−165	−172	......	−172
Supplemental annuity pension fund:									
Benefit payments	7	......	7	51	......	51	53	......	53
Interest on refund of taxes	22	......	22	22	......	22	1	......	1
Railroad Social Security equivalent benefit account:									
Benefit payments	418	......	418	2,887	......	2,887	2,860	......	2,860
Interest on refund of taxes	−11	......	−11	8	......	8	(* *)	......	(* *)
Other	(* *)	......	(* *)	1	......	1	1	......	1
Total—Railroad Retirement Board	685	......	685	4,812	......	4,812	4,760	......	4,760
Oversight Board	(* *)	......	(* *)	558	......	558	−3	......	−3
Securities and Exchange Commission	−1	......	−1	6	......	6	77	......	77
Smithsonian Institution	33	......	33	243	......	243	249	......	249
Tennessee Valley Authority	734	709	25	5,298	4,976	322	5,503	4,580	922
United States Enrichment Corporation Fund	152	128	23	742	873	−131	649	987	−338
United States Information Agency	94	(* *)	94	679	(* *)	679	659	(* *)	659
Other	68	12	56	740	250	490	1,018	261	757
Total—Other independent agencies	**7,417**	**7,067**	**350**	**52,903**	**50,747**	**2,156**	**54,940**	**57,014**	**−2,074**
Undistributed offsetting receipts:									
Other interest	......	......	......	......	(* *)	(* *)	......	(* *)	(* *)
Employer share, employee retirement:									
Legislative Branch:									
United States Tax Court:									
Tax court judges survivors annuity fund	......	......	......	(* *)	......	(* *)	(* *)	......	(* *)
The Judiciary:									
Judicial survivors annuity fund	......	......	......	......	......	......	......	......	......
Department of Defense—Civil:									
Military retirement fund	−920	......	−920	−6,472	......	−6,472	−7,135	......	−7,135
Department of Health and Human Services:									
Federal hospital insurance trust fund:									
Federal employer contributions	−144	......	−144	−1,054	......	−1,054	−1,061	......	−1,061
Postal Service employer contributions	−43	......	−43	−284	......	−284	−324	......	−324
Payments for military service credits	......	......	......	......	......	......	......	......	......
Department of State:									
Foreign Service retirement and disability fund	−8	......	−8	−63	......	−63	−64	......	−64
Office of Personnel Management:									
Civil service retirement and disability fund	−800	......	−800	−5,826	......	−5,826	−5,623	......	−5,623
Social Security administration (off-budget):									
Federal old-age and survivors insurance trust fund:									
Federal employer contributions	−436	......	−436	−2,879	......	−2,879	−2,960	......	−2,960
Payments for military service credits	......	......	......	......	......	......	17	......	17
Federal disability insurance trust fund:									
Federal employer contributions	−78	......	−78	−514	......	−514	−529	......	−529
Payments for military service credits	......	......	......	......	......	......	−17	......	−17
Independent agencies:									
Court of veterans appeals retirement fund	......	......	......	(* *)	......	(* *)	......	......	......
Total—Employer share, employee retirement	−2,428	......	−2,428	−17,091	......	−17,091	−17,695	......	−17,695

Table 5. Outlays of the U.S. Government, April 1996 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Undistributed offsetting receipts:—Continued									
Interest received by trust funds:									
The Judiciary:									
Judicial survivors annuity fund	(* *)	......	(* *)	–11	......	–11	–9	......	–9
Department of Defense—Civil:									
Corps of Engineers	–2	......	–2	–13	......	–13	–11	......	–11
Military retirement fund	–138	......	–138	–5,826	......	–5,826	–5,782	......	–5,782
Education benefits fund	(* *)	......	(* *)	–19	......	–19	–22	......	–22
Soldiers' and airmen's home permanent fund	(* *)	......	(* *)	–4	......	–4	–5	......	–5
Other	......	......	......	–1	......	–1	–1	......	–1
Department of Health and Human Services:									
Federal hospital insurance trust fund	–21	......	–21	–5,253	......	–5,253	–5,396	......	–5,396
Federal supplementary medical insurance trust fund	–49	......	–49	–650	......	–650	–967	......	–967
Department of Labor:									
Unemployment trust fund	–23	......	–23	–1,727	......	–1,727	–1,392	......	–1,392
Department of State:									
Foreign Service retirement and disability fund	(* *)	......	(* *)	–312	......	–312	–300	......	–300
Department of Transportation:									
Highway trust fund	–4	......	–4	–609	......	–609	–577	......	–577
Airport and airway trust fund	–12	......	–12	–417	......	–417	–401	......	–401
Oil spill liability trust fund	(* *)	......	(* *)	–4	......	–4	–4	......	–4
Department of Veterans Affairs:									
National service life insurance fund	–2	......	–2	–529	......	–529	–537	......	–537
United States government life Insurance Fund	(* *)	......	(* *)	–4	......	–4	–4	......	–4
Environmental Protection Agency	(* *)	......	(* *)	–1	......	–1	–1	......	–1
National Aeronautics and Space Administration	(* *)	......	(* *)	–1	......	–1	–1	......	–1
Office of Personnel Management:									
Civil service retirement and disability fund	[2]–361	......	–361	–14,602	......	–14,602	–13,946	......	–13,946
Social Security administration (off-budget):									
Federal old-age and survivors insurance trust fund	–261	......	–261	–16,937	......	–16,937	–15,360	......	–15,360
Federal disability insurance trust fund	–56	......	–56	–1,174	......	–1,174	–860	......	–860
Independent agencies:									
Railroad Retirement Board	–37	......	–37	–674	......	–674	–406	......	–406
Other	–2	......	–2	–18	......	–18	–12	......	–12
Other	–21	......	–21	–55	......	–55	–135	......	–135
Total—Interest received by trust funds	–990	......	–990	–48,841	......	–48,841	–46,130	......	–46,130
Rents and royalties on the outer continental shelf lands	......	499	–499	......	1,806	–1,806	......	1,086	–1,086
Sale of major assets	......	......	......	......	......	......	......	......	......
Spectrum auction proceeds	......	5	–5	......	205	–205	......	610	–610
Total—Undistributed offsetting receipts	**–3,418**	**504**	**–3,922**	**–65,933**	**2,011**	**–67,943**	**–63,826**	**1,696**	**–65,521**
Total outlays	**148,630**	**17,637**	**130,993**	**1,021,360**	**116,995**	**904,365**	**995,394**	**118,689**	**876,706**
Total on-budget	**117,991**	**12,860**	**105,131**	**816,166**	**83,231**	**732,935**	**798,694**	**86,553**	**712,142**
Total off-budget	**30,640**	**4,777**	**25,863**	**205,195**	**33,764**	**171,431**	**196,700**	**32,136**	**164,564**
Total surplus (+) or deficit			**+72,393**			**–55,825**			**–96,931**
Total on-budget			**+55,643**			**–97,783**			**–137,233**
Total off-budget			**+16,750**			**+41,958**			**+40,303**

MEMORANDUM

Receipts offset against outlays [$ millions]

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	28,507	28,456
Intrabudgetary transactions	128,585	114,314
Governmental receipts	1,755	2,005
Total receipts offset against outlays	158,847	144,775

[1] Includes a prior period adjustment.

[2] Includes $284 million for restitution of forgone interest to the "Civil Service Retirement and Disability Fund", Office of Personnel Management.

[3] Includes FICA and SECA tax credits, non-contributory military service credits, special benefits for the aged, and credit for unnegotiated OASI benefit checks.

[4] The Postal Service accounting is composed of thirteen 28-day periods. To conform with the MTS calendar-month reporting basis used by all other Federal agencies, the MTS reflects USPS results through April 26th and estimates for $352 million through April 30th.

(* *) Less than $500,000

Note: Details may not add to totals due to rounding

Table 6. Means of Financing the Deficit or Disposition of Surplus by the U.S. Government, April 1996 and Other Periods

[$ millions]

Assets and Liabilities Directly Related to Budget Off-budget Activity	Net Transactions (−) denotes net reduction of either liability or asset accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Liability accounts:						
Borrowing from the public:						
Public debt securities, issued under general Financing authorities:						
Obligations of the United States, issued by:						
United States Treasury	−15,738	128,066	159,577	4,958,983	5,102,786	5,087,049
Federal Financing Bank	......	......	......	15,000	15,000	15,000
Total, public debt securities	−15,738	128,066	159,577	4,973,983	5,117,786	5,102,049
Plus premium on public debt securities	−8	−53	−56	1,236	1,190	1,182
Less discount on public debt securities	−80	−1,653	2,248	81,231	79,658	79,578
Total public debt securities net of Premium and discount	−15,665	129,666	157,274	4,893,989	5,039,319	5,023,655
Agency securities, issued under special financing authorities (see Schedule B. for other Agency borrowing, see Schedule C)	154	8,701	−1,723	26,962	35,508	35,663
Total federal securities	−15,511	138,367	155,550	4,920,950	5,074,828	5,059,317
Deduct:						
Federal securities held as investments of government accounts (see Schedule D)	20,500	61,332	58,132	1,320,800	1,361,632	1,382,132
Less discount on federal securities held as investments of government accounts	545	1,298	558	3,188	3,940	4,485
Net federal securities held as investments of government accounts	19,955	60,034	57,573	1,317,612	1,357,692	1,377,647
Total borrowing from the public	−35,466	78,332	97,977	3,603,338	3,717,136	3,681,670
Accrued interest payable to the public	−130	512	11,706	50,611	51,253	51,123
Allocations of special drawing rights	−55	−276	518	7,380	7,159	7,105
Deposit funds	498	−728	2,125	8,186	6,960	7,458
Miscellaneous liability accounts (includes checks Outstanding etc.)	−4,829	2,125	5,336	4,813	11,767	6,938
Total liability accounts	**−39,982**	**79,965**	**117,662**	**3,674,329**	**3,794,276**	**3,754,294**
Asset accounts (deduct)						
Cash and monetary assets:						
U.S. Treasury operating cash:[1]						
Federal Reserve account	4,020	2,422	1,393	8,620	7,021	11,042
Tax and loan note accounts	22,429	7,952	734	29,329	14,853	37,281
Balance	26,449	10,374	2,127	37,949	21,874	48,323
Special drawing rights:						
Total holdings	−86	−72	1,772	11,035	11,049	10,963
SDR certificates issued to Federal Reserve banks	......	......	......	−10,168	−10,168	−10,168
Balance	−86	−72	1,772	867	881	795
Reserve position on the U.S. quota in the IMF:						
U.S. subscription to International Monetary Fund:						
Direct quota payments	......	......	......	31,762	31,762	31,762
Maintenance of value adjustments	−296	−1,493	2,803	8,196	6,999	6,703
Letter of credit issued to IMF	−17	997	1,233	−26,315	−25,302	−25,319
Dollar deposits with the IMF	3	−2	−2	−105	−110	−107
Receivable/Payable (−) for interim maintenance of value adjustments	179	932	−1,894	1,145	1,898	2,077
Balance	−131	434	2,140	14,682	15,247	15,117
Loans to International Monetary Fund	......	......	......	(* *)	(* *)	(* *)
Other cash and monetary assets	5,883	5,574	8,242	30,525	30,216	36,099
Total cash and monetary assets	32,116	16,311	14,282	84,023	68,219	100,334
Net activity, guaranteed loan financing	173	47	−988	−12,714	−12,840	−12,667
Net activity, direct loan financing	775	7,750	3,656	19,732	26,706	27,481
Miscellaneous asset accounts	−652	33	4,164	−1,725	−1,040	−1,692
Total asset accounts	**32,411**	**24,140**	**21,113**	**89,316**	**81,045**	**113,457**
Excess of liabilities (+) or assets (−)	**−72,393**	**+55,825**	**+96,548**	**+3,585,012**	**+3,713,231**	**+3,640,837**
Transactions not applied to current year's surplus or deficit (see Schedule a for Details)	......	......	382	......	......	......
Total budget and off-budget federal entities (financing of deficit (+) or disposition of surplus (−))	**−72,393**	**+55,825**	**+96,931**	**+3,585,012**	**+3,713,231**	**+3,640,837**

[1] Major sources of information used to determine Treasury's operating cash income include Federal Reserve Banks, the Treasury Regional Finance Centers, the Internal Revenue Service Centers, the Bureau of the Public Debt and various electronic systems. Deposits are reflected as received and withdrawals are reflected as processed.

... No Transactions.

(* *) Less than $500,000

Note: Details may not add to totals due to rounding

Table 6. Schedule A—Analysis of Change in Excess of Liabilities of the U.S. Government, April 1996 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year to Date	
		This Year	Prior Year
Excess of liabilities beginning of period:			
Based on composition of unified budget in preceding period	3,713,231	3,584,970	3,422,146
Adjustments during current fiscal year for changes in composition of unified budget:			
Revisions by federal agencies to the prior budget results	......	43	−268
Excess of liabilities beginning of period (current basis)	3,713,231	3,585,012	3,421,878
Budget surplus (−) or deficit:			
Based on composition of unified budget in prior fiscal yr	−72,393	55,825	96,931
Changes in composition of unified budget	......	......	......
Total surplus (−) or deficit (Table 2)	−72,393	55,825	96,931
Total-on-budget (Table 2)	−55,643	97,783	137,233
Total-off-budget (Table 2)	−16,750	−41,958	−40,303
Transactions not applied to current year's surplus or deficit:			
Seigniorage	......	......	−382
Profit on sale of gold	......	......	(* *)
Total-transactions not applied to current year's Surplus or deficit	......	......	−382
Excess of liabilities close of period	**3,640,837**	**3,640,837**	**3,518,426**

Table 6. Schedule B—Securities Issued by Federal Agencies Under Special Financing Authorities, April 1996 and Other Periods

[$ millions]

Classification	Net Transactions (−) denotes net reduction of liability accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Agency securities, issued under special financing authorities:						
Obligations of the United States, issued by:						
Export-Import Bank of the United States	......	......	......	(* *)	(* *)	(* *)
Federal Deposit Insurance Corporation:						
FSLIC resolution fund	−12	−44	−32	158	126	114
Obligations guaranteed by the United States, issued by:						
Department of Defense:						
Family housing mortgages	......	......	......	6	6	6
Department of Housing and Urban Development:						
Federal Housing Administration	3	−31	−42	87	52	56
Department of the Interior:						
Bureau of Land Management	......	......	......	13	13	13
Department of Transportation:						
Coast Guard:						
Family housing mortgages	......	......	......	(* *)	(* *)	(* *)
Obligations not guaranteed by the United States, issued by:						
Legislative Branch:						
Architect of the Capitol	1	1	1	182	181	183
Department of Defense:						
Homeowners assistance mortgages	......	(* *)	......	......	(* *)	(* *)
Independent agencies:						
Farm Credit System Financial Assistance Corporation	......	......	......	1,261	1,261	1,261
National Archives and Records Administration	......	−2	−2	295	293	293
Postal Service	......	4,665	......	......	4,665	4,665
Tennessee Valley Authority	162	4,112	−1,649	24,960	28,911	29,072
Total, agency securities	**154**	**8,701**	**−1,723**	**26,962**	**35,508**	**35,663**

... No Transactions.
(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, April 1996 and Other Periods

[$ millions]

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Borrowing from the Treasury:						
Funds Appropriated to the President:						
International Security Assistance:						
Foreign military loan program	......	343	337	788	1,131	1,131
Agency for International Development:						
International Debt Reduction	......	......	......	335	335	335
Housing and other credit guaranty programs	......	......	......	125	125	125
Private sector revolving fund	......	......	......	1	1	1
Overseas Private Investment Corporation	......	21	22	52	73	73
Department of Agriculture:						
Farm Service Agency:						
Commodity Credit Corporation	......	−6,836	−7,529	6,987	151	151
Agricultural credit insurance fund	......	604	−1,748	1,605	2,209	2,209
Natural Resources Conservation Service	......	......	......	4	4	4
Rural Utilities Service:						
Rural electrification and telephone revolving fund	5	683	723	8,666	9,344	9,349
Rural Telephone Bank	......	−20	85	664	644	644
Rural development insurance fund	......	220	715	2,806	3,026	3,026
Rural communication development fund	......	......	......	25	25	25
Rural housing and Community Development Service:						
Rural housing insurance fund	......	951	1,192	5,353	6,304	6,304
Self-help housing land development fund	......	......	1	(* *)	(* *)	(* *)
Rural Business and Cooperative Development Service:						
Rural development loan fund	......	17	40	61	78	78
Rural economic development loan fund	......	......	8	30	30	30
Foreign Agricultural Service	......	......	97	563	563	563
Department of Education:						
Federal direct student loan program	......	7,607	4,868	5,067	12,674	12,674
Federal family education loan program	......	......	......	1,134	1,134	1,134
College housing and academic facilities fund	......	......	18	184	184	184
College housing loans	......	(* *)	......	360	359	359
Department of Energy:						
Isotope production and distribution fund	......	......	−14	......	......	......
Bonneville power administration fund	......	−115	−5	2,563	2,448	2,448
Department of Housing and Urban Development:						
Housing programs:						
Federal Housing Administration	......	−68	−21	1,647	1,579	1,579
Housing for the ederly and handicapped	......	−805	−770	7,714	6,909	6,909
Public and Indian housing:						
Low-rent public housing	......	......	−135	20	20	20
Department of the Interior:						
Bureau of Reclamation Loans	......	9	......	17	26	26
Bureau of Mines, Helium Fund	......	......	......	252	252	252
Bureau of Indian Affairs:						
Revolving funds for loans	......	......	8	28	28	28
Department of Justice:						
Federal prison industries, incorporated	......	......	......	20	20	20
Department of Transportation:						
Federal Highway Administration:						
High priority quarters loan fund	......	......	21	32	32	32
Federal Railroad Administration:						
Railroad rehabilitation and improvement financing funds	......	......	(* *)	(* *)	(* *)	(* *)
Amtrak corridor improvement loans	......	......	(* *)	3	3	3
Other	......	......	......	(* *)	(* *)	(* *)
Federal Aviation Administration:						
Aircraft purchase loan guarantee program	......	......	(* *)	(* *)	(* *)	(* *)
Minority business resource center fund	......	7	14	15	22	22
Department of the Treasury:						
Federal Financing Bank revolving fund	−646	−18,218	−13,983	69,297	51,725	51,079
Department of Veterans Affairs:						
Guaranty and indemnity fund	......	1,161	586	302	1,463	1,463
Loan guaranty revolving fund	......	722	903	1,272	1,994	1,994
Direct loan revolving fund	......	(* *)	(* *)	1	1	1
Native american veteran housing fund	......	18	12	7	25	25
Vocational rehabilitation revolving fund	(* *)	−1	(* *)	2	1	2

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, April 1996 and Other Periods—Continued

[$ millions]

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Borrowing from the Treasury:—Continued						
Environmental Protection Agency:						
Abatement, control, and compliance loan program	......	10	11	37	47	47
Small Business Administration:						
Business loan and revolving fund	......	−13	......	342	329	329
Disaster loan fund	......	......	......	7,999	7,999	7,999
Independent agencies:						
District of Columbia	......	232	......	147	379	379
Export-Import Bank of the United States	12	71	30	2,665	2,723	2,736
Federal Emergency Management Agency:						
National insurance development fund	78	419	......	268	609	687
Disaster assistance loan fund	......	−37	169	222	185	185
Pennsylvania Avenue Development Corporation:						
Land aquisition and development fund	......	......	......	85	85	85
Railroad Retirement Board:						
Rail industry pension fund	......	......	......	2,128	2,128	2,128
Social Security equivalent benefit account	270	1,817	1,784	2,828	4,374	4,644
Smithsonian Institution:						
John F. Kennedy Center parking facilities	......	......	......	20	20	20
Tennessee Valley Authority	......	......	......	150	150	150
Total agency borrowing from the Treasury financed through public debt securities issued	**−281**	**−11,201**	**−12,560**	**134,892**	**123,972**	**123,691**
Borrowing from the Federal Financing Bank:						
Funds Appropriated to the President:						
Foreign military financing program	−6	−142	−156	3,493	3,357	3,351
Department of Agriculture:						
Farm Service Agency:						
Agriculture credit insurance fund	−240	−295	−1,600	1,470	1,415	1,175
Rural Utilities Service:						
Rural electrification and telephone revolving fund	−108	−335	−17	21,875	21,648	21,539
Rural development insurance fund	......	......	......	3,675	3,675	3,675
Rural housing and Community Development Service:						
Rural housing insurance fund	......	−685	−760	21,700	21,015	21,015
Department of Defense:						
Department of the Navy	......	......	......	1,624	1,624	1,624
Defense agencies	......	−49	−47	−192	−242	−242
Department of Health and Human Services:						
Medical facilities guarantee and loan fund	......	......	−23	33	33	33
Department of Housing and Urban Development:						
Low rent housing loans and other expenses	......	−62	−58	1,689	1,627	1,627
Community Development Grants	......	−8	−14	89	81	81
Department of Interior:						
Territorial and international affairs	......	−1	−1	21	20	20
Department of Transportation:						
Federal Railroad Administration	......	−1	−3	14	13	13
Federal Transit Administration	......	......	−665	......	......	......
General Services Administration:						
Federal buildings fund	3	−10	111	1,893	1,881	1,884
Small Business Administration:						
Business loan fund	−3	−27	−81	361	337	334
Independent agencies:						
Export-Import Bank of the United States	......	−498	−777	2,506	2,008	2,008
FSLIC resolution fund:						
Resolution trust corporation closeout	−299	−6,003	−8,661	13,209	7,504	7,205
Pennsylvania Avenue Development Corporation	......	55	68	374	429	429
Postal Service	......	-6,965	−1,100	7,265	300	300
Tennessee Valley Authority	......	−3,200	−200	3,200	......	......
Total borrowing from the Federal Financing Bank	**−653**	**−18,225**	**−13,984**	**84,298**	**66,726**	**66,073**

Note: This table includes lending by the Federal Financing Bank accomplished by the purchase of agency financial assets, by the acquisition of agency debt securities, and by direct loans on behalf of an agency. The Federal Financing Bank borrows from Treasury and issues its own securities and in turn may loan these funds to agencies in lieu of agencies borrowing directly through Treasury or issuing their own securities.

... No Transactions.
(* *) Less than $500,000
Note: Details may not add to totals due to rounding

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, April 1996 and Other Periods

[$ millions]

Classification	Net Purchases or Sales (−)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Federal funds:						
Department of Agriculture	−1	1	1	......	2	1
Department of Commerce	3	1	4	20	18	21
Department of Defense—Military:						
Defense cooperation account	(* *)	(* *)	−4	1	1	1
Department of Energy	70	624	419	4,951	5,504	5,575
Department of Housing and Urban Development:						
Housing programs:						
Federal housing administration fund	2	824	70	6,678	7,500	7,502
Government National Mortgage Association:						
Management and liquidating functions fund:						
Agency securities	......	−15	......	15	......	......
Guarantees of mortgage-backed securities:						
Public debt securities	42	329	285	4,210	4,496	4,539
Agency securities	......	−1	......	1	......	......
Other	......	−21	−9	209	188	188
Department of the Interior	192	207	581	3,431	3,445	3,637
Department of Labor	−54	125	169	5,796	5,975	5,921
Department of Transportation	2	−70	48	481	409	412
Department of the Treasury	281	1,826	−4,387	2,559	4,105	4,386
Department of Veterans Affairs:						
Canteen service revolving fund	......	2	6	38	40	40
Veterans reopened insurance fund	−9	−5	−1	526	531	521
Servicemen's group life insurance fund	......	(* *)	−38	4	4	4
Independent agencies:						
Export-Import Bank of the United States	131	319	89	135	323	454
Federal Deposit Insurance Corporation:						
Bank insurance fund	143	894	4,903	21,017	21,769	21,912
Savings association insurance fund	37	554	524	3,600	4,116	4,153
FSLIC resolution fund	7	−185	−563	528	335	342
Federal Emergency Management Agency:						
National flood insurance fund	......	......	−120	......	......	......
National Credit Union Administration	160	127	215	3,325	3,291	3,452
Postal Service	823	1,346	2,437	1,249	1,772	2,596
Tennessee Valley Authority	−16	368	−2,701	1,242	1,626	1,609
Other	8	186	204	1,422	1,600	1,608
Other	−9	261	296	2,978	3,249	3,240
Total public debt securities	1,813	7,714	2,429	64,399	70,300	72,113
Total agency securities	......	−16	......	16	......	......
Total Federal funds	**1,813**	**7,698**	**2,429**	**64,415**	**70,300**	**72,113**
Trust funds:						
Legislative Branch:						
Library of Congress	13	15	8	13	14	27
United States Tax Court	......	(* *)	(* *)	5	5	5
Other	(* *)	1	5	31	32	32
The Judiciary:						
Judicial retirement funds	−2	41	33	287	330	328
Department of Agriculture	12	68	16	310	366	379
Department of Commerce	......	......	(* *)	(* *)	(* *)	(* *)
Department of Defense—Military:						
Voluntary separation incentive fund	1	200	10	685	885	886
Other	(* *)	−20	−65	88	69	68
Department of Defense—Civil:						
Military retirement fund	−1,365	5,249	9,070	112,963	119,577	118,212
Other	−18	111	36	1,495	1,624	1,606

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, April 1996 and Other Periods—Continued

[$ millions]

Classification	Net Purchases or Sales (−)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Trust Funds—Continued						
Department of Health and Human Services:						
Federal hospital insurance trust fund	4,285	493	5,050	129,864	126,072	130,357
Federal supplementary medical insurance trust fund	540	9,744	−614	13,513	22,718	23,258
Other	4	62	97	992	1,050	1,055
Department of the Interior	22	81	110	315	374	396
Department of Justice	......	77	56	......	77	77
Department of Labor:						
Unemployment trust fund	169	−2,849	−1,686	47,141	44,123	44,292
Other	−5	−4	−2	77	78	73
Department of State:						
Foreign Service retirement and disability fund	−13	241	300	7,801	8,055	8,042
Other	......	−29	−15	29	(* *)	(* *)
Department of Transportation:						
Highway trust fund	894	1,680	1,920	18,531	19,317	20,211
Airport and airway trust fund	−578	−1,773	−1,002	11,145	9,950	9,373
Other	−4	26	199	1,880	1,909	1,906
Department of the Treasury	(* *)	−21	−45	235	215	215
Department of Veterans Affairs:						
General post fund, national homes	1	1	−1	36	35	37
National service life insurance	−105	−48	−20	11,954	12,011	11,906
United States government life Insurance Fund	−1	−5	−6	106	102	101
Veterans special life insurance fund	−10	5	7	1,546	1,561	1,551
Environmental Protection Agency	11	145	695	7,243	7,377	7,388
National Aeronautics and Space Administration	(* *)	(* *)	(* *)	16	16	16
Office of Personnel Management:						
Civil service retirement and disability fund:						
Public debt securities	−1,829	−8,345	−28	366,126	359,610	357,781
Agency securities	......	7,865	......	......	7,865	7,865
Employees life insurance fund	71	559	374	15,839	16,327	16,398
Employees and retired employees health benefits fund	−69	−223	304	7,890	7,736	7,667
Social Security Administration:						
Federal old-age and survivors insurance trust fund	13,146	29,936	16,843	447,947	464,737	477,883
Federal disability insurance trust fund	2,898	8,760	23,357	35,225	41,087	43,985
Independent agencies:						
Harry S. Truman memorial scholarship trust fund	(* *)	(* *)	1	54	55	54
Japan-United States Friendship Commission	−2	(* *)	(* *)	16	18	16
Railroad Retirement Board	617	1,589	571	14,440	15,413	16,030
Other	2	−1	126	544	542	544
Total public debt securities	18,688	45,770	55,702	1,256,385	1,283,467	1,302,155
Total agency securities	......	7,865	......	......	7,865	7,865
Total trust funds	**18,688**	**53,635**	**55,702**	**1,256,385**	**1,291,332**	**1,310,020**
Grand total	**20,500**	**61,332**	**58,132**	**1,320,800**	**1,361,632**	**1,382,132**

... No Transactions
(* *) Less than $500,000.

Note: Investments are in public debt securities unless otherwise noted.
Note: Details may not add to totals due to rounding.

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1996

[$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
Receipts:														
Individual income taxes	51,840	39,524	53,179	86,192	40,327	22,523	107,513						401,196	351,121
Corporation income taxes	2,180	1,694	38,021	5,158	1,692	15,460	24,937						89,142	80,132
Social insurance taxes and contributions:														
Employment taxes and contributions	30,549	34,919	37,123	40,742	36,011	41,086	56,615						277,044	264,484
Unemployment insurance	1,214	2,940	223	1,081	2,546	258	3,628						11,889	11,632
Other retirement contributions	342	340	416	374	403	419	346						2,640	2,629
Excise taxes	4,453	5,154	4,870	4,241	4,308	4,133	4,577						31,736	32,282
Estate and gift taxes	1,160	1,349	1,383	1,288	1,090	1,137	2,704						10,110	8,559
Customs duties	1,786	1,593	1,439	1,482	1,456	1,528	1,388						10,671	11,214
Miscellaneous receipts	2,070	2,496	1,618	2,364	1,517	2,467	1,680						14,212	17,723
Total—Receipts this year	**95,593**	**90,008**	**138,271**	**142,922**	**89,349**	**89,011**	**203,386**						**848,540**	......
(On-budget)	**72,200**	**63,651**	**110,322**	**110,615**	**60,913**	**56,677**	**160,774**						**635,152**	......
(Off-budget)	**23,393**	**26,357**	**27,949**	**32,307**	**28,437**	**32,334**	**42,613**						**213,389**	......
Total—Receipts prior year	*89,024*	*87,673*	*130,810*	*131,801*	*82,544*	*92,532*	*165,392*						......	*779,775*
(On budget)	*65,384*	*62,083*	*103,860*	*101,036*	*54,405*	*61,970*	*126,170*						......	*574,908*
(Off budget)	*23,639*	*25,590*	*26,950*	*30,765*	*28,139*	*30,562*	*39,222*						......	*204,867*
Outlays														
Legislative Branch	175	173	158	262	199	162	172						1,301	1,642
The Judiciary	197	196	226	320	212	215	329						1,695	1,608
Executive Office of the President	14	14	14	18	15	25	19						118	130
Funds Appropriated to the President:														
International Security Assistance	120	764	239	138	2,012	104	143						3,520	4,575
International Development Assistance	801	256	240	585	261	416	626						3,186	3,337
Other	−199	183	−286	350	67	305	58						479	−739
Department of Agriculture:														
Commodity Credit Corporation and Foreign Agricultural Service	820	2,104	352	112	−31	−313	−473						2,570	9,681
Other	4,990	4,436	3,888	4,138	3,713	4,229	3,738						29,132	29,545
Department of Commerce	353	280	250	363	307	287	322						2,164	1,997
Department of Defense:														
Military:														
Military personnel	3,033	5,927	8,009	3,325	5,760	5,552	5,522						37,127	38,694
Operation and maintenance	5,957	6,721	7,265	7,723	7,579	7,562	7,598						50,404	51,172
Procurement	3,616	3,250	3,924	4,579	3,396	4,562	4,201						27,529	33,371
Research, development, test, and evaluation	2,645	2,689	2,905	2,985	2,878	3,199	3,179						20,480	20,150
Military construction	535	611	635	543	429	517	625						3,894	3,711
Family housing	307	287	296	337	283	327	314						2,151	1,936
Revolving and management funds	796	1,105	702	−145	182	−61	482						3,061	−1,416
Other	381	−328	253	24	−28	−101	−133						67	−701
Total Military	17,270	20,262	23,988	19,371	20,478	21,556	21,787						144,713	146,917
Civil	2,660	2,707	2,593	2,718	2,853	2,664	2,683						18,877	18,249
Department of Education	2,056	2,336	1,891	3,624	2,568	2,620	2,356						17,451	18,181
Department of Energy	1,495	1,383	1,498	1,139	1,285	1,222	1,136						9,158	10,114
Department of Health and Human Services:														
Public Health Service	1,873	1,672	1,453	1,616	1,789	2,032	2,004						12,438	11,816
Health Care Financing Administration:														
Grants to States for Medicaid	7,252	8,071	6,702	6,730	7,411	7,787	7,853						51,805	51,084
Federal hospital ins. trust fund	9,082	9,869	10,302	10,169	10,709	10,410	10,947						71,489	63,851
Federal supp. med. ins. trust fund	5,367	5,913	6,032	5,758	5,043	5,367	5,793						39,273	36,167
Other	3,934	3,792	3,577	6,161	4,814	12,356	6,450						41,084	27,780
Administration for children and families	2,426	2,972	2,607	3,051	2,795	2,306	2,729						18,886	19,153
Other	−5,515	−5,462	−4,906	−8,033	−6,357	−13,892	−7,924						−52,089	−38,416
Department of Housing and Urban Development	1,087	2,350	2,701	2,646	2,162	3,122	2,308						16,376	17,360
Department of the Interior	641	477	499	536	624	485	504						3,766	4,311
Department of Justice	809	985	838	1,112	933	920	1,020						6,616	6,134
Department of Labor:														
Unemployment trust fund	1,786	1,864	2,133	2,872	2,596	2,613	2,503						16,367	15,271
Other	730	957	298	661	−76	377	702						3,648	3,375
Department of State	531	341	439	300	423	432	357						2,823	3,464
Department of Transportation:														
Highway trust fund	1,632	1,873	1,492	1,315	1,401	1,471	1,414						10,597	10,066

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1996—Continued

[$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
Outlays—Continued														
Other	1,506	1,427	1,630	1,800	1,578	1,443	1,471						10,855	11,616
Department of the Treasury:														
Interest on the public debt	21,631	26,006	60,676	20,923	20,977	20,739	21,481						192,433	182,868
Other	−30	−1,053	1,146	405	6,870	7,171	2,939						17,446	12,324
Department of Veterans Affairs:														
Compensation and pensions	101	1,488	2,911	83	1,561	1,569	1,575						9,288	8,946
National service life	75	63	63	83	91	105	95						575	569
United States government life	1	1	1	1	1	2	1						9	10
Other	1,442	1,710	1,441	1,985	1,231	1,612	1,279						10,699	11,166
Environmental Protection Agency	484	538	435	595	526	481	494						3,553	3,569
General Services Administration	339	389	477	−393	382	396	−739						851	−58
National Aeronautics and Space Administration	1,128	1,119	973	1,208	1,073	1,057	1,193						7,751	7,499
Office of Personnel Management	3,576	3,418	3,576	3,379	3,252	3,758	3,756						24,715	23,754
Small Business Administration	16	238	76	−9	23	41	31						417	525
Social Security Administration:														
Federal old-age and survivors ins. trust fund (off-budget)	24,544	24,413	25,064	25,126	25,163	25,337	25,342						174,988	168,008
Federal disability ins. trust fund (off-budget)	3,516	3,475	3,773	3,581	3,671	3,786	3,751						25,553	23,665
Other	174	2,233	3,941	254	2,372	2,261	2,340						13,575	13,183
Independent agencies:														
Fed. Deposit Ins. Corp:														
Bank insurance fund	−609	−69	20	−110	−10	59	−132						−852	−4,844
Savings association insurance fund	−40	−14	−82	−235	−2	−142	−33						−548	−520
FSLIC resolution fund:														
Rtc closeout	−1,502	−840	−638	−797	−676	−638	−370						−5,462	−6,533
Other	407	87	−71	−37	−27	−33	−19						307	527
Affordable housing and bank enterprise	(* *)	......	(* *)	(* *)	(* *)	(* *)	(* *)						1	3
Postal Service:														
Public enterprise funds (off-budget)	−374	−618	333	−883	−280	−674	−721						−3,217	−3,556
Payment to the Postal Service fund	55	......	3	21	......	......	21						101	107
Oversight Board	556	(* *)	(* *)	(* *)	(* *)	(* *)	(* *)						558	−3
Tennessee Valley Authority	123	186	96	106	−108	−106	25						322	922
Other independent agencies	2,026	1,792	1,069	1,408	1,655	1,417	1,577						10,945	11,822
Undistributed offsetting receipts:														
Employer share, employee retirement	−2,404	−2,365	−2,562	−2,491	−2,559	−2,282	−2,428						−17,091	−17,695
Interest received by trust funds	−415	−5,736	−40,465	−65	−1,028	−143	−990						−48,841	−46,130
Rents and royalties on outer continental shelf lands	−361	−200	−121	−322	−295	−8	−499						−1,806	−1,086
Other	(* *)	(* *)	......	(* *)	......	−200	−5						−205	−610
Totals this year:														
Total outlays	**118,352**	**128,458**	**132,984**	**123,647**	**133,644**	**136,286**	**130,993**						**904,365**	......
(On-budget)	**92,151**	**101,767**	**121,753**	**98,056**	**105,711**	**108,365**	**105,131**						**732,935**	......
(Off-budget)	**26,201**	**26,691**	**11,231**	**25,591**	**27,933**	**27,921**	**25,863**						**171,431**	......
Total-surplus (+) or deficit (−)	**−22,758**	**−38,450**	**+5,286**	**+19,274**	**−44,295**	**−47,275**	**+72,393**						**−55,825**	......
(On-budget)	**−19,951**	**−38,116**	**−11,431**	**+12,558**	**−44,799**	**−51,688**	**+55,643**						**−97,783**	......
(Off-budget)	**−2,807**	**−334**	**+16,717**	**+6,716**	**+504**	**+4,413**	**+16,750**						**+41,958**	......
Total borrowing from the public	**13,353**	**38,339**	**−18,358**	**−4,747**	**47,022**	**38,189**	**−35,466**						**78,332**	**97,977**
Total-outlays prior year	*120,365*	*124,915*	*135,613*	*116,166*	*120,899*	*143,074*	*115,673*						......	*876,706*
(On-budget)	*95,307*	*99,464*	*124,316*	*90,883*	*94,421*	*117,123*	*90,628*						......	*712,142*
(Off-budget)	*25,059*	*25,452*	*11,297*	*25,282*	*26,478*	*25,951*	*25,045*						......	*164,564*
Total-surplus (+) or deficit (−) prior year	*−31,342*	*−37,242*	*−4,803*	*+15,635*	*−38,355*	*−50,543*	*+49,720*						......	*−96,931*
(On-budget)	*−29,922*	*−37,381*	*−20,456*	*+10,152*	*−40,016*	*−55,153*	*+35,542*						......	*−137,233*
(Off-budget)	*−1,420*	*+138*	*+15,653*	*+5,483*	*+1,661*	*+4,610*	*+14,178*						......	*+40,303*

... No transactions.
(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 8. Trust Fund Impact on Budget Results and Investment Holdings as of April 30, 1996

[$ millions]

Classification	This Month			Fiscal Year to Date			Securities held as Investments Current Fiscal Year		
							Beginning of		Close of This Month
	Receipts	Outlays	Excess	Receipts	Outlays	Excess	This Year	This Month	
Trust receipts, outlays, and investments held:									
Airport and airway	12	505	−493	1,891	3,730	−1,839	11,145	9,950	9,373
Black lung disability	52	45	7	348	316	31	......	......	......
Federal disability insurance	6,661	3,751	2,910	34,333	25,553	8,780	35,225	41,087	43,985
Federal employees life and health	......	30	−30	......	−287	287	23,729	24,063	24,065
Federal employees retirement	1,531	3,413	−1,882	23,611	23,191	420	374,219	375,865	374,021
Federal hospital insurance	15,632	10,947	4,685	71,927	71,489	438	129,864	126,072	130,357
Federal old-age and survivors insurance	38,462	25,342	13,120	204,949	174,988	29,961	447,947	464,737	477,883
Federal supplementary medical insurance	6,287	5,793	494	49,451	39,273	10,177	13,513	22,718	23,258
Hazardous substance superfund	270	109	162	938	778	160	6,181	6,297	6,317
Highways	1,909	1,657	252	13,476	12,612	864	18,531	19,317	20,211
Military advances	1,189	1,129	60	8,338	8,260	78	......	......	......
Military retirement	1,058	2,439	−1,382	22,997	16,681	6,316	112,963	119,577	118,212
Railroad retirement	489	666	−177	3,216	4,673	−1,457	14,440	15,413	16,030
Unemployment	3,657	2,503	1,155	13,919	16,367	−2,448	47,141	44,123	44,292
Veterans life insurance	22	126	−104	672	716	−44	13,606	13,675	13,559
All other trust	238	311	−73	1,997	2,061	−64	7,880	8,439	8,458
Total trust fund receipts and outlays and investments held from Table 6-D	**77,471**	**58,766**	**18,705**	**452,062**	**400,402**	**51,660**	**1,256,385**	**1,291,332**	**1,310,020**
Less: Interfund transactions	11,914	11,914	......	123,449	123,449	......			
Trust fund receipts and outlays on the basis of Tables 4 & 5	65,557	46,852	18,705	328,613	276,953	51,660			
Total Federal fund receipts and outlays	**140,756**	**87,068**	**53,688**	**541,040**	**648,525**	**−107,485**			
Less: Interfund transactions	12	12	......	223	223	......			
Federal fund receipts and outlays on the basis of Table 4 & 5	140,744	87,056	53,688	540,817	648,302	−107,485			
Less: Offsetting proprietary receipts	2,915	2,915	......	20,890	20,890	......			
Net budget receipts & outlays	**203,386**	**130,993**	**72,393**	**848,540**	**904,365**	**−55,825**			

... No transactions.

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds such as Federal payments and contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipts side of such transactions is offset against bugdet outlays. In this table, Interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds respectively.

Note: Details may not add to totals due to rounding.

Table 9. Summary of Receipts by Source, and Outlays by Function of the U.S. Government, April 1996 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year
RECEIPTS			
Individual income taxes	107,513	401,196	351,121
Corporation income taxes	24,937	89,142	80,132
Social insurance taxes and contributions:			
Employment taxes and contributions	56,615	277,044	264,484
Unemployment insurance	3,628	11,889	11,632
Other retirement contributions	346	2,640	2,629
Excise taxes	4,577	31,736	32,282
Estate and gift taxes	2,704	10,110	8,559
Customs	1,388	10,671	11,214
Miscellaneous	1,680	14,212	17,723
Total	**203,386**	**848,540**	**779,775**
NET OUTLAYS			
National defense	22,725	152,102	154,418
International affairs	988	9,194	10,548
General science, space, and technology	1,534	9,952	9,812
Energy	17	992	2,772
Natural resources and environment	1,660	13,730	13,968
Agriculture	−249	4,477	10,902
Commerce and housing credit	−1,741	−9,799	−12,876
Transportation	2,864	21,310	21,568
Community and Regional Development	1,026	6,379	5,963
Education, training, employment and social services	4,014	29,711	30,678
Health	10,458	67,472	65,811
Medicare	15,124	98,965	88,515
Income security	21,417	140,551	131,083
Social Security	29,092	200,201	191,668
Veterans benefits and services	2,974	20,649	20,803
Administration of justice	1,585	9,725	9,300
General government	−25	7,057	7,694
Interest	20,463	140,800	133,469
Undistributed offsetting receipts	−2,932	−19,102	−19,391
Total	**130,993**	**904,365**	**876,706**

Note: Details may not add to totals due to rounding.

Explanatory Notes

1. Flow of Data Into Monthly Treasury Statement

The Monthly Treasury Statement (MTS) is assembled from data in the central accounting system. The major sources of data include monthly accounting reports by Federal entities and disbursing officers, and daily reports from the Federal Reserve banks. These reports detail accounting transactions affecting receipts and outlays of the Federal Government and off-budget Federal entities, and their related effect on the assets and liabilities of the U.S. Government. Information is presented in the *MTS* on a modified cash basis.

2. Notes on Receipts

Receipts included in the report are classified into the following major categories: (1) budget receipts and (2) offsetting collections (also called applicable receipts). Budget receipts are collections from the public that result from the exercise of the Government's sovereign or governmental powers, excluding receipts offset against outlays. These collections, also called governmental receipts, consist mainly of tax receipts (including social insurance taxes), receipts from court fines, certain licenses, and deposits of earnings by the Federal Reserve System. Refunds of receipts are treated as deductions from gross receipts.

Offsetting collections are from other Government accounts or the public that are of a business-type or market-oriented nature. They are classified into two major categories: (1) offsetting collections credited to appropriations or fund accounts, and (2) offsetting receipts (i.e., amounts deposited in receipt accounts). Collections credited to appropriation or fund accounts normally can be used without appropriation action by Congress. These occur in two instances: (1) when authorized by law, amounts collected for materials or services are treated as reimbursements to appropriations and (2) in the three types of revolving funds (public enterprise, intragovernmental, and trust); collections are netted against spending, and outlays are reported as the net amount.

Offsetting receipts in receipt accounts cannot be used without being appropriated. They are subdivided into two categories: (1) proprietary receipts—these collections are from the public and they are offset against outlays by agency and by function, and (2) intragovernmental funds—these are payments into receipt accounts from Governmental appropriation or funds accounts. They finance operations within and between Government agencies and are credited with collections from other Government accounts. The transactions may be intrabudgetary when the payment and receipt both occur within the budget or from receipts from off-budget Federal entities in those cases where payment is made by a Federal entity whose budget authority and outlays are excluded from the budget totals.

Intrabudgetary transactions are subdivided into three categories: (1) interfund transactions, where the payments are from one fund group (either Federal funds or trust funds) to a receipt account in the other fund group; (2) Federal intrafund transactions, where the payments and receipts both occur within the Federal fund group; and (3) trust intrafund transactions, where the payments and receipts both occur within the trust fund group.

Offsetting receipts are generally deducted from budget authority and outlays by function, by subfunction, or by agency. There are four types of receipts, however, that are deducted from budget totals as undistributed offsetting receipts. They are: (1) agencies' payments (including payments by off-budget Federal entities) as employers into employees retirement funds, (2) interest received by trust funds, (3) rents and royalties on the Outer Continental Shelf lands, and (4) other interest (i.e., interest collected on Outer Continental Shelf money in deposit funds when such money is transferred into the budget).

3. Notes on Outlays

Outlays are generally accounted for on the basis of checks issued, electronic funds transferred, or cash payments made. Certain outlays do not require issuance of cash or checks. An example is charges made against appropriations for that part of employees' salaries withheld for taxes or savings bond allotments — these are counted as payments to the employee and credits for whatever purpose the money was withheld. Outlays are stated net of offsetting collections (including receipts of revolving and management funds) and of refunds. Interest on the public debt (public issues) is recognized on the accrual basis. Federal credit programs subject to the Federal Credit Reform Act of 1990 use the cash basis of accounting and are divided into two components. The portion of the credit activities that involve a cost to the Government (mainly subsidies) is included within the budget program accounts. The remaining portion of the credit activities are in non-budget financing accounts. Outlays of off-budget Federal entities are excluded by law from budget totals. However, they are shown separately and combined with the on-budget outlays to display total Federal outlays.

4. Processing

The data on payments and collections are reported by account symbol into the central accounting system. In turn, the data are extracted from this system for use in the preparation of the *MTS*.

There are two major checks which are conducted to assure the consistency of the data reported:

1. Verification of payment data. The monthly payment activity reported by Federal entities on their Statements of Transactions is compared to the payment activity of Federal entities as reported by disbursing officers.
2. Verification of collection data. Reported collections appearing on Statements of Transactions are compared to deposits as reported by Federal Reserve banks.

5. Other Sources of Information About Federal Government Financial Activities

• *A Glossary of Terms Used in the Federal Budget Process, January 1993* (Available from the U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, Md. 20877). This glossary provides a basic reference document of standardized definitions of terms used by the Federal Government in the budgetmaking process.

• *Daily Treasury Statement* (Available from GPO, Washington, D.C. 20402, on a subscription basis only). *The Daily Treasury Statement* is published each working day of the Federal Government and provides data on the cash and debt operations of the Treasury.

• *Monthly Statement of the Public Debt of the United States* (Available from GPO, Washington, D.C. 20402 on a subscription basis only). This publication provides detailed information concerning the public debt.

• *Treasury Bulletin* (Available from GPO, Washington, D.C. 20402, by subscription or single copy). Quarterly. Contains a mix of narrative, tables, and charts on Treasury issues, Federal financial operations, international statistics, and special reports.

• *Budget of the United States Government, Fiscal Year 19 __* (Available from GPO, Washington, D.C. 20402). This publication is a single volume which provides budget information and contains:

-Appendix, The Budget of the United States Government, FY 19 __
-The United States Budget in Brief, FY 19 __
-Special Analyses
-Historical Tables
-Management of the United States Government
-Major Policy Initiatives

• *United States Government Annual Report and Appendix* (Available from Financial Management Service, U.S. Department of the Treasury, Washington, D.C. 20227). This annual report represents budgetary results at the summary level. The appendix presents the individual receipt and appropriation accounts at the detail level.

Scheduled Release

The release date for the April 1996 Statement will be 2:00 pm EST June 21, 1996.

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 (202) 512-1800. The subscription price is $35.00 per year (domestic), $43.75 per year (foreign).
No single copies are sold.

The Monthly Treasury Statement is now available on the Department of Commerce's Economic Bulletin Board.
For information call (202)482-1986.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

ADV NOON EDT
Remarks as prepared for delivery
May 22, 1996

REMARKS OF TREASURY SECRETARY ROBERT E. RUBIN
YESHIVA UNIVERSITY COMMENCEMENT
NEW YORK, NEW YORK

I take the recognition you have given me not so much for myself, but as an indication of your appreciation for the work of government and the role of public service in our county. That respect for government is something that we, the Jewish people, have an enormously important interest and stake in. Throughout history we -- and all mankind -- have benefited from the rule of law. But when there is a breakdown in the rule of law, we are almost always among those who suffer first. For this reason, your honorary degree means a great deal to me.

I have the privilege of serving as the 70th Secretary of the Treasury. Near my office is a portrait of one of my predecessors -- Henry Morganthau, the 52nd Treasury Secretary.

Fifty-two years ago in January -- at the height of the war and the depths of the Holocaust -- a very junior lawyer in Treasury's legal department discovered that the State Department had conspired to keep news of the systematic killing of Jews from the American people. The General Counsel at Treasury took the evidence to Morganthau, and when Morganthau read it, it was so damning and so upsetting that he became physically ill. Morganthau then walked a nine-page memo with the evidence across the street to the White House and straight to the Oval Office. He sat there while Franklin Roosevelt read it, and then gave Roosevelt a proposal for U.S. involvement in rescuing Jews. Within days, Roosevelt established the War Refugee Board. This is an especially meaningful and enduring example of what public service is and ought to be about.

Just as you have debated politics, ethics, and the meaning of Torah at Morg Lounge and Koch Auditorium, there is a debate in this country that goes to the core of this nation's future and its social fabric. I am speaking about the debate on the role and scope of government.

(more)

Over the years I developed a great deal of interest in the public policy. And for the past three and a half years I've had the good fortune of having the deeply rewarding opportunity to use the experiences I've had in the private sector to deal with the issues of the nation. My challenge to you today is that in your own lives -- no matter what career you choose -- you should be involved in helping to re-establish a constructive relationship between our people and our government. That is not entirely popular today. In some quarters, appeals to public service are not popular, rarely heard, and often not well received.

Commencement speeches often deal with advice to graduates or reflections on the past and present. I want to discuss something I believe is of enormous importance to the nation and to you, and that is the debate about government.

The debate about the role and scope of government is as old as the republic itself. But today that debate is dominated by a derogation of government and public service. The constant derogation is taking its toll on the way Americans view their government.

Twenty-five years ago 75 percent of Americans trusted the federal government. Polls today put that trust at under 25 percent. Distrust of government is well above the danger point. And that is a development that should concern all of us.

I am emphatically not saying we shouldn't have this debate. We should. But today, the dominant tone is hostility.

Think of the voices we hear: First, the political and intellectual voices who believe the scope of government and its role in society should be very limited; second, the popular voices on talk radio and elsewhere that disparage the government and the people who serve in Washington; and third, the voices of violence. Those are the voices of some in the militias and elsewhere who are actually threatening federal employees way beyond what the public sees.

The Oklahoma City bombing was the most vivid and violent example of domestic terrorism we've seen, but it is part of a disturbing and growing problem. Last fall I visited Treasury's Bureau of Alcohol, Tobacco and Firearms office in St. Paul. They'd just made some arrests in a suspected plot to bomb an IRS office, and they'd arrested people suspected of plotting to put lethal toxins in the homes of judicial employees.

A woman told me at an anti-violence event a few months ago that she'd worked a school to help convince youngsters not to use guns but that someone claiming to be from the Michigan Militia threatened her life. Park Rangers and Bureau of Land Management employees are being threatened.

Those of you who use the internet ought to type in the word militia under a search area and read some of this material. There are people out there who will tell you that members of our military and our law enforcement community are, and I quote, "enemies of freedom ... anti-constitution ... anti-Bill of Rights ... and therefore anti-American." They call our leaders "opportunistic tyrants." They say there's a "Shadow Government" and believe, and I quote again "that during the last several decades the U.S. Constitution has been effectively overthrown, and that is now observed only as a facade to deceive and placate the masses."

The extremism we see not only manifests itself in attacks on the federal government, it is manifesting itself more generally in our society, and let me give you an example. I'm speaking about the church fires that have been occurring at black congregations. You and I fully understand what it means when a house of worship burns. Throughout history, our own people suffered acts of depraved violence that began with the destruction of our Temple of Jerusalem, saw its worst in places like the Warsaw Ghetto, and continues even in America with the hate crimes of today. Let us never forget what it meant 30 years ago to civil rights marchers who were intimidated by those who burned churches and who are still burning churches today.

Obviously this activity is at the outer edge of extremism and all responsible Americans reject it. But acts against the rule of law, and calls to violence in this context, signal those so inclined that that kind of activity is tolerated in society. It isn't, should not be, and cannot be tolerated.

Clearly, what is completely missing in the public dialogue is balance, and that has serious consequences for the world you will live in.

In many ways, you are entering an era of great change -- arguably globalization and technology are the most significant economic changes since the Industrial Revolution -- and this era is filled with hope and opportunity.

But it is also an age of anxiety, and large numbers of American families are anxious about wage stagnation, economic dislocation, and social and moral issues. Too many Americans experiencing all these uncertainties also believe that the institutions of government they have historically looked to for solutions to their problems, are broken. And then, they are more likely to turn to those who offer harsher rhetoric and more extreme courses of action I've discussed.

I think it is imperative for the future of our country that respect for government and public service be re-established. We must begin talking about the critical role that government plays and the important things that government -- and often only government -- can do.

In that spirit, I'd like to make three points.

First, government matters. There are functions that can be performed in no other way. I will not list them all, but you know what they are -- a strong military, an impartial system of justice, and rules and laws to protect the dignity of people, particularly the powerless, to preserve the shared environment, and to provide for public education, welfare and health.

As I've made clear today, these functions are under broad attack. They make an enormous difference in the lives of Americans. Government does work, and government does make a difference.

To offer an example that's just a few miles from here, the South Bronx is making enormous progress in its transformation from an urban wasteland. Go there. You will see a vast area of attractive new and rehabilitated housing, and the beginnings of businesses returning and jobs being created.

How did it change? Business and communities came together with the help the Community Reinvestment Act, the Community Development Financial Institutions Fund, and the Low Income Housing Tax Credit. Government, with the private sector, is the catalyst in addressing what may be our most critical domestic policy issue, the problems of the inner city -- a catalytic function no other institution in our society can or will do.

In the same vein, about 25 years ago, then Mayor Lindsay quipped about not being comfortable breathing air he couldn't see. Today, New York City's air is appropriately invisible. Government played the critical role. In the final analysis, only through government -- directly or as a catalyst -- will the environment in which you live your lives and make your homes be adequately protected.

So government matters.

My second point is about the people in government. One of the things that has most struck me is the commitment and quality of so many people with whom I've worked. And that includes many younger people who, like you, have the advantage of an outstanding education and then decided to spend a few years in public service.

Government takes on many of the most difficult issues in our society. The people who I work with have done the legal and financial work on the $20 billion loan guarantee for Mexico. They have fought extraordinarily hard and successfully to keep this country out of default, to protect the President, to help pass an assault weapons ban, to investigate the Oklahoma City bombing, to make it possible for millions of Americans to file their taxes by telephone, and to seize tons and tons of dangerous drugs at our borders -- things that make a difference in the lives of Americans.

These people do this extraordinary work, despite the fact they are called bureaucrats -- and worse -- by talk show hosts and irresponsible public officials, and they never receive the public support or recognition that their hard work deserves.

My third point is that the federal government -- like the business world -- is now deeply involved in improving itself to make government operate more efficiently and effectively, and to be more customer sensitive.

The federal workforce is the smallest in a generation, and as a percentage of the total work force in this nation, at its lowest level in many many decades. Moreover, government is in the process of turning from the kinds of hide-bound institutions many of us imagine to agencies bound and determined to give taxpayers the highest value for their dollars.

I deeply believe that the success of our country requires that faith in our public institutions be restored. And that cannot happen unless there is a far broader -- and yes, far louder -- counterpoint to the voices on talk radio, to the militias, to those who reject the notion of government and the rule of law in this country.

This is your challenge. You must be part of the process of re-establishing respect for the institution of government and those who work in public service.

Being part of a rational public discourse about where this nation is headed is one of the most important things you can do. And to do that, you must reject the cynicism and derogation that argues that society is incapable of improving itself through the institution of government.

And, you must also take responsibility for making government better -- by getting involved in civic and community organizations, by supporting candidates you believe in, by getting involved in the political process, or by serving in government.

Throughout our history, new generations have met the challenges of the times. Today, our country needs to meet the challenges we have just discussed, and you are the new generation. By meeting these challenges, you will honor the democratic principles on which this nation was built and the values you've been taught at Yeshiva.

Thank you and congratulations.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 2:30 P.M.
May 22, 1996

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES TOTALING $31,250 MILLION

The Treasury will auction $18,750 million of 2-year notes and $12,500 million of 5-year notes to refund $27,398 million of publicly-held securities maturing May 31, 1996, and to raise about $3,850 million new cash.

In addition to the public holdings, Federal Reserve Banks hold $1,146 million of the maturing securities for their own accounts, which may be refunded by issuing additional amounts of the new securities.

The maturing securities held by the public include $3,004 million held by Federal Reserve Banks as agents for foreign and international monetary authorities. Amounts bid for these accounts by Federal Reserve Banks will be added to the offering.

Both the 2-year and 5-year note auctions will be conducted in the single-price auction format. All competitive and non-competitive awards will be at the highest yield of accepted competitive tenders.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

RR-1092

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF
2-YEAR AND 5-YEAR NOTES TO BE ISSUED MAY 31, 1996

May 22, 1996

Offering Amount	$18,750 million	$12,500 million
Description of Offering:		
Term and type of security	2-year notes	5-year notes
Series	AF-1998	J-2001
CUSIP number	912827 X9 8	912827 Y2 2
Auction date	May 29, 1996	May 30, 1996
Issue date	May 31, 1996	May 31, 1996
Dated date	May 31, 1996	May 31, 1996
Maturity date	May 31, 1998	May 31, 2001
Interest rate	Determined based on the highest accepted bid	Determined based on the highest accepted bid
Yield	Determined at auction	Determined at auction
Interest payment dates	November 30 and May 31	November 30 and May 31
Minimum bid amount	$5,000	$1,000
Multiples	$1,000	$1,000
Accrued interest payable by investor	None	None
Premium or discount	Determined at auction	Determined at auction

The following rules apply to all securities mentioned above:

Submission of Bids:	
Noncompetitive bids	Accepted in full up to $5,000,000 at the highest accepted yield
Competitive bids	(1) Must be expressed as a yield with three decimals, e.g., 7.123% (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is $2 billion or greater. (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.
Maximum Recognized Bid at a Single Yield	35% of public offering
Maximum Award	35% of public offering
Receipt of Tenders:	
Noncompetitive tenders	Prior to 12:00 noon Eastern Daylight Saving time on auction day
Competitive tenders	Prior to 1:00 p.m. Eastern Daylight Saving time on auction day
Payment Terms	Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Remarks as prepared for delivery
May 23, 1996

REMARKS OF TREASURY SECRETARY ROBERT E. RUBIN
PENSION PRESS CONFERENCE

I am pleased to join the House and Senate leaders in discussing a central tenet of the President's economic agenda -- the idea that working Americans need better pension coverage and security, and that American businesses need pension simplification.

Clearly, the House has taken an initial step, but there is more that needs to be done to fully adopt the President's Retirement Savings and Security Act, which is a comprehensive proposal to expand pension coverage, security and portability, and simplify pensions.

There are two points I'd like to make. One, it is enormously important for economic growth that we raise our net national savings rate and thereby provide more capital for investment. We're doing that through deficit reduction, and I believe through the program announced earlier this month on inflation indexed bonds. Improving the nation's pension system clearly would contribute importantly towards increasing savings.

And two, this administration has been working on pension issues from the moment we began turning the economy around in 1993. At the outset, we protected the benefits of over 40 million workers who were endangered by pension underfunding. And, the President vetoed legislation that would have encouraged corporations to remove funds they previously put into the pension plans of Americans.

Our proposal for a National Employee Savings Trust (NEST) makes it far far easier for small businesses to offer pensions through a simplified 401(k)-type plan that could expand coverage to up to 10 million working Americans. This is enormously important because today only one worker in four in small business is covered by an employer pension.

We also want to expand IRAs for singles and married couples by doubling income limits and by making IRA money available without penalty for education and training, first home purchases, major medical expenses and during long-term unemployment.

And, our proposal would help pension-covered workers who change jobs but want to move their retirement savings and continue to save. We're already adding one innovation at the federal level, which is eliminating the 1-year waiting period before new employees can enter the federal government pension system. And in our proposal, we're encouraging private sector employers to do the same -- allow employees to start saving for retirement as soon as they're hired.

I'll leave it to Secretary Reich to discuss the issue of pension security. I'll just summarize by saying I'm pleased to see the House moving toward the sensible plan the President has laid out. If we work together, we can make the retirement years of working Americans more secure and help keep our economy growing.

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General Explanation
of the
Retirement Savings and Security Act

Department of the Treasury
Department of Labor
Office of Personnel Management
May 1996

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TITLE I -- REVENUE PROVISIONS
SUBTITLE A -- EXPANDED PENSION COVERAGE AND SIMPLIFICATION
CHAPTER 1 -- THE NEST AND OTHER COVERAGE EXPANSION

THE NEST -- A SIMPLE RETIREMENT PLAN FOR SMALL BUSINESS

(Section 1101)

Current Law

Under current law, an individual may make deductible contributions to an individual retirement account or individual retirement annuity (IRA) up to the lesser of $2,000 or compensation (wages and self-employment income). (The dollar limit is $2,250 if the individual's spouse has no compensation.) If the individual (or the individual's spouse) is an active participant in an employer-sponsored retirement plan, the $2,000 limit on deductible contributions is phased out for couples filing a joint return with adjusted gross income (AGI) between $40,000 and $50,000, and for single taxpayers with AGI between $25,000 and $35,000. To the extent that an individual is not eligible for deductible IRA contributions, he or she may make nondeductible IRA contributions (up to the contribution limit).

The earnings on IRA account balances are not included in income until they are withdrawn. Withdrawals from an IRA (other than withdrawals of nondeductible contributions) are includible in income, and must begin by age 70 ½. Amounts withdrawn before age 59 ½ are generally subject to an additional 10 percent tax. The additional tax does not apply to distributions upon the death or disability of the taxpayer or to substantially equal periodic payments over the life (or life expectancy) of the IRA owner or over the joint lives (or life expectancies) of the IRA owner and his or her beneficiary.

Simplified employee pensions (SEPs) and, for employers with 25 or fewer employees, salary reduction SEPs (SARSEPs), are employer-sponsored plans under which employer contributions and, in the case of SARSEPs, employee-elected salary reduction contributions are made to IRAs established by employees. An employer that adopts a SEP must contribute to the SEP for every employee who has attained age 21, has worked for the employer during at least three of the immediately preceding five years, and is paid at least $400 (for 1996, as adjusted for cost of living) by the employer for the year. Thus, for example, an employer would have to make a SEP contribution for an employee who worked for the employer one hour per year in the preceding three years and worked 40 hours (and earned $400) in the current year, if the employer was making contributions for any other employee for the year. SEPs do not allow employees to make elective contributions through salary reduction

SARSEPs allow employees to make elective contributions, but cannot provide for employer matching contributions. SARSEPs are available only to for-profit employers that had 25 or fewer employees at all times during the preceding year. In addition, special eligibility and nondiscrimination rules apply tq SARSEPs. If at least 50 percent of the eligible employees do not choose to make elective contributions to a SARSEP in a year, then no employee can make elective contributions. An employer with 25 or fewer employees may fall below the 50 percent threshold (and out of SARSEP eligibility) from year to year.

SARSEPs are subject to the top-heavy rules A SARSEP is considered top-heavy if the aggregate accounts of key employees in the plan exceed 60 percent of the aggregate accounts of all employees in the plan If a SARSEP is top-heavy and any key employee of the employer makes elective contributions of at least 3 percent of pay, then the employer must make minimum contributions of 3 percent of pay for all non-key employees -- even if those non-key employees also make elective contributions of 3 percent of pay

Reasons for Change

The tax-favored employer retirement plans currently available under the Internal Revenue Code have not been sufficiently successful in attracting small employers. In 1993, for example, only 24 percent of full-time workers in private firms with fewer than 100 employees were covered by employer retirement plans. In contrast, 73 percent of full-time workers in firms with 1,000 or more workers were covered.

The administrative cost and complexity associated with traditional qualified retirement plans often discourage small employers from sponsoring these plans For employers with few employees, the cost of maintaining the plan may be large relative to the benefits provided to employees. As a result, pension coverage of employees of small employers is significantly lower than the pension coverage of employees of larger employers

SEPs and SARSEPs, which were designed for small employers, are perceived by many employers as overly complicated and impractical The nondiscrimination and eligibility rules applicable to SARSEPs make it difficult for an eligible employer to maintain a SARSEP on an ongoing basis An eligible employer cannot encourage employees to make elective contributions through the incentive of offering to match employee contributions dollar-for-dollar or otherwise.

The inability to offer matching contributions makes it difficult for the employer to satisfy the SARSEP nondiscrimination test Under this test, elective contributions for any highly compensated employee are limited to 125 percent of the average elective contributions for all nonhighly compensated employees for the year Thus, highly compensated employees are limited to very low levels of elective contributions unless other employees make significant elective contributions -- which they are less likely to make without the incentive of a matching contribution Concerns have also been raised that, where SEPs and SARSEPs are used, there may be significant noncompliance with the statutory requirements

Proposal

The proposal would allow employers with 100 or fewer employees to adopt a new simple retirement plan The new plan would be known as the National Employee Savings Trust, or "NEST "

The NEST would operate through individual IRA accounts for employees, and would incorporate design-based nondiscrimination safe harbors similar to those the Administration is proposing for 401(k) plans Like other IRA accounts, investment in NEST accounts would be directed by each employee By eliminating or greatly simplifying many of the rules that apply to other qualified retirement plans, including 401(k) plans, the NEST would remove major obstacles that deter many small employers from setting up retirement plans The current SEP and SARSEP rules would not be eliminated or modified, but would remain in place

Funding Through IRAs

Use of IRAs as the funding vehicle All employee and employer contributions to NESTs would be made to IRAs, and the IRA rules would govern except where otherwise specified.

Initial use of specific financial institution In order to simplify plan administration for employers, an employer could require that all of its participating employees use a designated financial institution's IRAs as the recipient of NEST contributions -- but only if participants were notified in writing that a participant could move his or her account balance (in a trustee-to-trustee transfer) without charge to another IRA at any time. This notification could be incorporated into the annual disclosure to employees regarding the NEST (described below) or could be provided separately

Employer Eligibility

100-employee limit Any employer, including a tax-exempt organization or governmental entity, would be eligible to make a NEST program available to its employees in a given year if the employer had no more than 100 employees in the prior year For this purpose, employees would be counted only if they had at least $5,000 of compensation (as reported on Form W-2) from the employer The "employer" would be determined on a "controlled group" basis (i.e., aggregating 80 percent affiliates)

Two-year grace period If an eligible employer established a NEST program and, subsequently, the number of employees grew to exceed 100 (based on the prior year's employment), the employer would continue to be eligible to provide a NEST for the current and subsequent year. After that two-year "grace period," the employer would cease to be eligible unless the employee count again dropped to 100 or fewer (based on the prior year's employment) If an eligible employer ceased to meet the 100-employee test because of an acquisition, disposition or similar transaction, the NEST program could continue for the grace period only if no significant changes in coverage occurred

Employee Eligibility to Participate and Vesting

Two-year eligibility Each employee who attained age 21 and completed two consecutive years of service with the employer generally would be eligible to participate in the NEST A "year of service" would be defined as a calendar year during which an employee's W-2 compensation from the employer was at least $5,000 An employer could choose to allow all employees to participate earlier than upon attainment of age 21 and completion of two years of service Nonresident aliens and employees covered under a collective bargaining agreement would not have to be eligible to participate in a NEST

Participating employees who drop below the $5,000 threshold or whose employment terminates mid-year Once an employee became eligible, the employee would be entitled to make elective contributions and receive any employer matching contributions for a year without regard to the employee's compensation during the year. All eligible employees with at least $5,000 of compensation[1] from the employer for the year would receive a nonelective employer contribution for that year. However, no nonelective employer contributions would be required for eligible employees with less than $5,000 of compensation for the year, unless the employer chose a lower compensation threshold for all eligible employees.

Portability/100 percent vesting. All contributions would be 100 percent vested immediately and would be fully portable, even during the two-year holding period (described below).

No Nondiscrimination Testing

Nondiscrimination tests not applicable. NESTs would not be subject to:

- the top-heavy rules;
- the nondiscrimination rules that apply to elective contributions under a 401(k) plan (the "ADP" test);
- the nondiscrimination rules that apply to matching contributions (the "ACP" test); or
- the nondiscrimination rules that apply to SEPs and SARSEPs. (Thus, for example there would be no 50 percent participation requirement, and no 125 percent test.)

HCE determinations irrelevant. Because NESTs would not be subject to any nondiscrimination tests, an employer that offers a NEST would not be required to determine which employees are "highly compensated employees."

Contributions

NESTs would receive nonelective employer contributions and, depending on the option selected by the employer, elective contributions and employer matching contributions.

Design-based safe harbors. In lieu of top-heavy and nondiscrimination rules, every NEST would be required to choose annually to satisfy one of the following two design-based safe harbors (generally similar to the Administration's proposed 401(k) safe harbors).

(1) The employer makes a nonelective contribution of at least 3 percent of compensation[2] for each eligible employee. The employer may choose to allow employee elective contributions

Any employee elective contributions to the NEST would be included in compensation for this purpose.

The $150,0000 compensation limit that applies for purposes of the deduction and contribution limits for qualified plans, SEPs and SARSEPs would also apply for purposes of the NEST contributions.

in addition to the employer nonelective contributions (an employer who wants to combine nonelective contributions with matching contributions may use the second safe harbor)

(2) The employer makes a nonelective contribution of at least 1 percent of compensation for each eligible employee and allows employee elective contributions The employer must provide a 100 percent matching contribution on the employees' elective contributions up to 3 percent of compensation and a matching contribution of at least 50 percent (and no greater than 100 percent) on the next 2 percent of employees' elective contributions. The employer may not provide any other matching formula, including a more generous formula. Although this safe harbor would require a 1 percent nonelective employer contribution, the top-heavy rules would not apply, as noted above This means that those employers that otherwise would have been required to make a 3 percent top-heavy minimum contribution for each non-key employee would have to make only a 1 percent nonelective contribution In addition, employers that offer a NEST would be relieved of the requirement to test the NEST for top-heavy status.

Employee elective contributions The limit on an employee's annual elective contributions (i.e., salary reduction contributions) to a NEST would be $5,000. (Elective contributions to 401(k) plans are currently limited to $9,500) The NEST limit would remain at $5,000 until the section 402(g) limit exceeded $10,000, then, the NEST limit would be indexed to (and remain at) one half of the section 402(g) limit for each year

Nonelective employer contributions A NEST could provide for discretionary nonelective employer contributions in excess of the safe harbor minimums (1 percent or 3 percent) from year to year Any such nonelective employer contributions in excess of the 1 percent or 3 percent minimums would have to be an equal percentage of compensation for all eligible employees. Total nonelective contributions (both the safe harbor minimums and discretionary contributions) could not exceed 5 percent of compensation

Section 404 deduction limit not applicable The employer would be permitted to deduct the elective, matching, and nonelective contributions described above (within the contribution limits described) without regard to any separate percent-of-compensation limitation (i.e., there would be no limit comparable to that imposed by section 404(a)(3))

Timing of Contributions

Elective contributions. Employee elective contributions would be required to be deposited in employees' accounts by the time required under Title I of ERISA for elective contributions to a 401(k) plan

Quarterly employer contributions Employer matching contributions would be required to be deposited in employees' accounts (IRAs) no less frequently than quarterly Employer nonelective contributions would also be required to be deposited no less frequently than quarterly -- but only for employees who as of the end of the quarter were paid at least $5,000 (or any lower threshold adopted by the employer) for that calendar year If an employee did not reach the threshold until the second, third, or fourth calendar quarter, the employer would be required, after the threshold had been reached, to make nonelective contributions for both the current and all preceding calendar quarters in the year. Contributions for any calendar quarter would be required to be deposited within 45 days after the end of that quarter.

Distributions

Two-year holding period. NEST contributions (and attributable earnings) would be subject to a two-year holding period beginning on the first day of the calendar year for which the contribution was made. This two-year restriction on withdrawals would apply whether or not the participant had incurred a termination of employment.

In all other respects, distributions from NEST IRAs would be subject to the same rules as distributions from IRAs generally (as distinguished from 401(k) or other qualified plans) -- no other restrictions would be imposed. The additional 10 percent tax on premature distributions would apply to distributions before age 59 ½. During the two-year holding period, contributions and earnings could be rolled over to another IRA -- but the original two-year holding period would continue to apply to the rolled-over amounts in the recipient IRA.

Rollovers. NESTs could originate and receive transfers from other IRAs (whether NESTs, SEPs, SARSEPs, or other IRAs). NESTs could also receive rollovers from qualified plans. All movement of NEST funds to other IRAs, whether or not during the two-year holding period, would be required to be carried out in the form of a trustee-to-trustee tra...er. Any amounts rolled over or transferred to a NEST would not be subject to the two-year holding period unless they were amounts transferred from a NEST for which the two-year holding period had not yet elapsed.

Miscellaneous

SEPs and other plans permitted. An employer that maintains a NEST could also maintain tax-qualified plans or SEPs, other than a plan that allows for elective contributions or matching contributions. For example, if the employer maintained a 401(k), salary reduction or matching 403(b), or SARSEP plan, and wished to establish a NEST, it would have to freeze (but not terminate) the 401(k), 403(b), or SARSEP plan.

If an employer did maintain another plan, compliance of the NEST with the NEST requirements would be determined without regard to the other plan. The other plan would have to take the NEST into account only for purposes of the section 404 deduction limits and the section 415 contribution and benefits limitations. For example, the top-heavy rules and nondiscrimination rules would apply to the other plan without regard to the NEST.

In the case of an employee who works for two employers, one of which sponsors a NEST and the other of which sponsors a 401(k), 403(b), or SARSEP plan, the section 402(g) elective deferral limit for that employee would be coordinated. Elective contributions to the NEST would have to be taken into account in determining whether the $9,500 limit had been exceeded under the other plan, but any elective contributions made to the other plan would not be taken into account in determining whether the $5,000 NEST limit had been exceeded.

Coordination with IRA deduction rules NESTs would be treated as qualified plans for purposes of the IRA deduction phase-out rules Thus, employees who participated in a NEST would be subject to the phase-out rules for making deductible IRA contributions if they had AGI in excess of the applicable thresholds

IRS model form The IRS would be directed to issue a model NEST document, but vendors and employers would have the option of using their own documents

Application of ERISA fiduciary rules Changes would also be made to ERISA to accommodate the NEST. Section 2001 of Title II of this Act would limit a plan sponsor's fiduciary liability The sponsor would not be subject to fiduciary liability for the designation of the NEST trustee or issuer, or the manner in which the NEST is invested, after the earliest of (1) an affirmative employee election with respect to the initial investment of any contributions, (2) a transfer to another IRA, or (3) one year after the employee's NEST is established, provided that the employee had been properly notified that he or she has a right to transfer the NEST account balance without charge The assets held in the NEST would cease to be plan assets when transferred to another IRA or otherwise distributed as benefits

Reporting ERISA would also be amended by section 2001 of Title II of this Act to make clear that an employer maintaining a NEST would not be subject to any reporting requirements (e.g., Form 5500 filing) However, the NEST trustee or issuer would be required to report NEST contributions on Form 5498, on which IRA contributions are reported

Disclosure Employees would be required to be notified annually in writing of their rights under the plan, including, for example, the right to a matching contribution and information from the NEST trustee or issuer Similarly, if an employer wanted to change its safe harbor formula, the employer would be required to notify eligible employees of the formula that would be used for a year within a reasonable period of time before the beginning of the annual election period (Employee elections to defer would occur in the last 60 days of each calendar year)

Plan suspension In order to provide flexibility to an employer that faced an unexpected financial hardship, employers would generally be permitted to suspend all NEST contributions (i e., all elective, matching, and nonelective contributions) at any time during the year after notifying eligible employees in writing at least 30 days before the suspension Only one suspension would be allowed during any year The Secretary may prescribe rules to prevent abuse, such as the repeated suspension of a NEST in a manner that prevents seasonal workers from receiving benefits

Calendar plan year The calendar year would be the plan year for all NESTs and would have to be used in applying all NEST contribution limits, eligibility, and other NEST requirements

This proposal would be effective for years beginning after December 31, 1996

TAX-EXEMPT ORGANIZATIONS ELIGIBLE UNDER SECTION 401(k)

(Section 1102)

Current Law

Except for certain plans established before July 2, 1986, an organization exempt from income tax is not allowed to maintain a section 401(k) plan.

Reasons for Change

The limitation on maintaining a 401(k) plan prevents many tax-exempt organizations from offering their employees retirement benefits on a salary reduction basis. Although tax-sheltered annuity programs can provide similar benefits, many types of tax-exempt organizations are also precluded from offering those programs.

Proposal

The proposal would allow organizations exempt from income tax (other than state or local governments) and Indian tribes to maintain a 401(k) plan. This proposal would be effective for plan years beginning after December 31, 1996.

SIMPLIFIED NONDISCRIMINATION TESTING FOR 401(k) PLANS
(Section 1103)

Current Law

The actual deferral percentage (ADP) test generally applies to the elective contributions (typically made by salary reduction) of all employees eligible to participate in a 401(k) plan. The test requires the calculation of each eligible employee's elective contributions as a percentage of the employee's pay The ADP test is satisfied if the plan passes either of the following two tests: (1) the average percentage of elective contributions for highly compensated employees does not exceed 125 percent of the average percentage of elective contributions for nonhighly compensated employees, or (2) the average percentage of elective contributions for highly compensated employees does not exceed 200 percent of the average percentage of elective contributions for nonhighly compensated employees, and does not exceed the percentage for nonhighly compensated employees by more than two percentage points The actual contribution percentage (ACP) test is almost identical to the ADP test, but generally applies to employer matching contributions and after-tax employee contributions under any qualified employer retirement plan

Both the ADP test and the ACP test generally compare the average contributions for highly compensated employees for the year to the average contributions for nonhighly compensated employees for the same year

When the ADP or ACP test is violated, correction is made by reducing the excess contributions of highly compensated employees beginning with employees who have deferred the greatest percentage of pay

Reasons for Change

The annual application of these tests, and correcting violations of these tests, can be complicated and costly For example, because the current year average for the nonhighly compensated employees is not known until the end of the year, the tests commonly require either monitoring and adjustments of contributions over the course of the year or complicated correction procedures and information reporting after the end of the year

The current correction method often does not affect the most highly paid of the highly compensated employees: their contributions, as a percentage of pay, are likely to be lower than the percentage contributions of lower-paid highly compensated employees, even if the dollar amount of their contributions is higher For example, if an employee makes $85,000 and contributes $6,000 (7 05 percent of pay), his or her contribution would be reduced before that of a CEO who makes $150,000 and contributes $9,000 (6 percent of pay)

Proposal

Design-based safe harbors. The proposal would provide two alternative "design-based" safe harbors If a plan were properly designed, the employer would avoid all ADP and ACP testing

Under the first safe harbor, the employer would have to make nonelective contributions of at least 3 percent of compensation for each nonhighly compensated employee eligible to participate in the plan. Alternatively, under the second safe harbor, the employer would have to make a nonelective contribution of at least 1 percent of compensation for each eligible nonhighly compensated employee, a 100 percent matching contribution on an employee's elective contributions up to the first 3 percent of compensation, and a matching contribution of at least 50 percent on the employee's elective contributions up to the next 2 percent of compensation.

A more generous matching contribution formula would also be considered to satisfy the matching contribution safe harbor, but only if the level of matching contributions did not increase as employee elective contributions increased and the matching contributions at every level of compensation were at least as great as they would have been under the safe harbor formula. However, for purposes of satisfying the matching contribution safe harbor with respect to the ACP test (but not the ADP test), matching contributions could not be made with respect to employee elective contributions in excess of 6 percent of compensation. The safe harbors could not be used to satisfy the ACP test with respect to after-tax employee contributions, which would be tested separately.

Under both safe harbors, the nonelective employer contributions and the matching employer contributions would be treated in a manner similar to "qualified nonelective contributions," including being nonforfeitable immediately and generally not distributable prior to the participant's death, disability, termination of employment, or attainment of age 59 ½. In addition, each employee eligible to participate in the plan would have to be given notice of his or her rights and obligations under the plan within a reasonable period before the beginning of any year.

Simplification for plans that chose not to use the design-based safe harbors. The proposal would also simplify the nondiscrimination rules for plans that chose not to use the design-based safe harbors. First, the proposal would modify the ADP and ACP tests to provide that, unless an employer made an election to use current year data, the average contributions for highly compensated employees fcr the current year would be compared to the average contributions for nonhighly compensated employees for the *preceding* year. An election to use current year data could be revoked only as provided by the Secretary. For the first plan year of a 401(k) plan, the average percentage for nonhighly compensated employees would be deemed to be 3 percent or, at the employer's election or (except to the extent provided by the Secretary) in the case of a successor plan, the average percentage for that first plan year. Second, a simplified correction method would require excess contributions to be distributed first to those highly compensated employees who deferred the highest dollar amount (as opposed to the highest percentage of pay) for the year. Under this approach, the lower-paid highly compensated employees would no longer tend to bear the brunt of the correction method.

The design-based safe harbors would be effective for years beginning after December 31, 1998. The proposal relating to prior-year data and the correction procedures would be effective for years beginning after December 31, 1996.

REPEAL OF THE FAMILY AGGREGATION RULES

(Section 1104)

Current Law

If an employee is a family member of either a more-than-5 percent owner of the employer or one of the employer's ten highest-paid highly compensated employees, then any compensation paid to the family member and any contribution or benefit under the plan on behalf of the family member is aggregated with the compensation paid and contributions or benefits on behalf of the highly compensated employee. Therefore, the highly compensated employee and all family members are treated as a single highly compensated employee. For purposes of this rule, an employee's "family member" is generally a spouse, parent, grandparent, child, or grandchild (or the spouse of a parent, grandparent, child, or grandchild).

A similar family aggregation rule applies with respect to the $150,000 annual limit on the amount of compensation that may be taken into account under a qualified plan. (However, under these provisions, only the highly compensated employee's spouse and children and grandchildren under age 19 are aggregated.)

Reasons for Change

The family aggregation rules may unfairly reduce retirement benefits for family members who are not highly compensated employees and greatly complicate the application of the nondiscrimination tests, particularly for family-owned or operated businesses.

Proposal

The family aggregation rules would be repealed. The proposal would be effective for years beginning after December 31, 1996.

SIMPLIFY DEFINITION OF HIGHLY COMPENSATED EMPLOYEE

(Section 1105)

Current Law

A qualified retirement plan must satisfy various nondiscrimination tests to ensure that it does not discriminate in favor of "highly compensated employees." In order to apply these tests, the employer must identify its "highly compensated employees." This term is currently defined by reference to a test with seven major parts. Under this definition, an employee is treated as a highly compensated employee for the current year, if, at any time during the current year or the preceding year, the employee:

(1) owned more than 5 percent of the employer,

(2) received more than $100,000 (as indexed for 1996) in annual compensation from the employer,

(3) received more than $66,000 (as indexed for 1996) in annual compensation from the employer and was one of the top-paid 20 percent of employees during the same year, or

(4) was an officer of the employer who received compensation greater than $60,000 (as indexed for 1996)

These four rules are modified by three additional rules

(5) An employee described in any of the last three categories for the current year but not the preceding year is treated as a highly compensated employee for the current year only if he or she was among the 100 highest paid employees for that year.

(6) No more than 50 employees or, if fewer, the greater of three employees or 10 percent of employees are treated as officers

(7) If no officer has compensation in excess of $60,000 (for 1996) for a year, then the highest paid officer of the employer for the year is treated as a highly compensated employee.

Reasons for Change

The definition of highly compensated employee is not only complicated, it classifies many middle-income workers as "highly compensated employees" who are then prohibited from receiving higher levels of benefits.

Proposal

The current seven-part test would be replaced by a simplified two-part test: an employee would be a "highly compensated employee" for the current year only if the employee owned more than 5 percent of the employer during the current or preceding year *or* had compensation from the employer of more than $80,000 (indexed annually for changes in the cost of living after 1997) during the preceding year. This dollar threshold would mean that many middle-income Americans no longer would be subject to nondiscrimination restrictions.

The proposal would be effective for years beginning after December 31, 1996

REPEAL OF LIMITATION IN CASE OF DEFINED BENEFIT PLAN AND DEFINED CONTRIBUTION PLAN FOR SAME EMPLOYEE

(Section 1106)

Current Law

An employee who participates in a qualified defined benefit plan and a qualified defined contribution plan of the same employer must also satisfy a combined plan limit. This limit is satisfied if the sum of the "defined benefit fraction" and the "defined contribution fraction" is no greater than 1.0.

The defined benefit fraction measures the portion of the maximum permitted defined benefit that the employee actually uses. The numerator is the projected normal retirement benefit, and the denominator is generally the lesser of 125 percent of the dollar limitation for the year, *or* 140 percent of the employee's percent of pay limitation.

The defined contribution fraction measures the portion that the employee actually uses of the maximum permitted contributions to a defined contribution plan for the employee's entire career with the employer. The numerator is generally the total of the contributions and forfeitures allocated to the employee's account for each of the employee's years of service with the employer. The denominator is the sum of a calculated value for each of those years of service. The calculated value is the lesser of 125 percent of the dollar limitation for that year of service, *or* 35 percent of the participant's compensation Because of the historical nature of this fraction, its computation is extremely cumbersome and requires the retention of various data for an employee's entire career

The combined plan limit is not the only Code provision that safeguards against an individual accruing excessive retirement benefits on a tax-favored basis. There are maximum limits for both defined benefit and defined contribution plans. In addition, a 15 percent "excess distribution" penalty was enacted in 1986 to achieve many of the same goals as the combined plan limit. A distribution is generally considered an "excess distribution" to the extent all distributions to an individual from all of the individual's qualified employer plans and IRAs exceed a specified dollar limit ($155,000 in 1996) during a calendar year. The limit is multiplied by five (i.e., $775,000 in 1996) for a lump sum distribution. Excess distributions made after death are subject to an additional estate tax of 15 percent. Other rules also protect against tax-favored excessive benefits.

Reasons for Change

Because other provisions of the Code, such as the excise tax on excess distributions, go far toward ensuring that an individual cannot accrue excessive retirement benefits on a tax-favored basis, the complexity of the combined plan limit is not justified

Proposal

The combined plan limit (Code section 415(e)) would be repealed. This proposal would be effective for years beginning after December 31, 1998

DISABLED EMPLOYEES

(Section 1107)

Current Law

An employer may elect to continue making deductible contributions to a defined contribution plan on behalf of permanently and totally disabled employees who are not highly compensated.

Reasons for Change

Contributions for disabled employees should be encouraged. In addition, contributions should be allowed for highly compensated disabled employees, as well as for nonhighly compensated disabled employees, if the contributions are provided on a nondiscriminatory basis.

Proposal

In order to simplify the rules for permanently and totally disabled workers and to encourage contributions for those disabled workers, an employer would not have to make an election in order to make contributions for disabled employees, and plans would generally be allowed to provide for contributions for disabled highly compensated employees, as well as for disabled nonhighly compensated employees

This proposal would be effective for years beginning after December 31, 1996.

PLANS MAINTAINED BY SELF-EMPLOYED INDIVIDUALS
(Section 1108)

Current Law

Prior to the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), numerous special rules applied to qualified retirement plans that covered self-employed individuals. Almost all of these special rules were repealed by TEFRA. However, special aggregation rules that do not apply to other qualified retirement plans still apply to qualified plans that cover an "owner-employee" (i.e., a sole proprietor of an unincorporated trade or business or a more-than-10 percent partner of a partnership). These aggregation rules generally require affected plans to be treated as a single plan and affected employers to be treated as a single employer. For example, if an owner-employee controls more than one trade or business, then any qualified plans maintained with respect to those trades or businesses must be treated as a single plan and all employees of those trades or business must be treated as employed by a single employer.

Reasons for Change

The special aggregation rules afford plan participants little, if any, protection because they are largely duplicative of the general aggregation rules that apply to all qualified employer plans, including plans that cover self-employed individuals.

Proposal

The special aggregation rules for qualified plans that cover owner-employees would be repealed. As under current law, these plans would be subject to the general plan aggregation rules that apply to tax-qualified employer retirement plans.

This proposal would be effective for years beginning after December 31, 1996.

TRUST REQUIREMENT FOR DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS
(Section 1109)

Current Law

Section 457 sets forth the tax rules applicable to nonqualified deferred compensation provided by a State or local government or tax-exempt organization Under section 457, an employee who elects to defer the receipt of compensation under an "eligible plan" is taxed on the amounts deferred when the amounts are paid or made available. If a plan for the deferral of compensation is not an "eligible plan," the deferred compensation is taxed to the participant in the first taxable year in which the compensation is not subject to a substantial risk of forfeiture, even if the compensation is not paid or otherwise made available to the participant until a later date.

Amounts deferred under a section 457 plan, including all property purchased with such amounts and all income attributable to such amounts, must remain solely the property of the employer, subject to the claims of the employer's general creditors, until made available to the participant or beneficiary Thus, compensation deferred by employees under a section 457 plan is not protected from the employer's general creditors in the event of the employer's bankruptcy. By contrast, the assets of a qualified cash or deferred arrangement must be held in trust for the exclusive benefit of participants and beneficiaries

Reasons for Change

Employers should be encouraged to provide benefits under a qualified retirement plan, but a governmental employer may want to offer a section 457 plan However, employees of a State or local government could lose the portion of their retirement savings that is in a 457 plan in the event that their employer became bankrupt

Proposal

Under the proposal, all amounts deferred (including amounts deferred prior to the effective date of the change) under a section 457 plan maintained by a State or local government employer would be required to be held in trust (or in a custodial account or annuity contract) for the exclusive benefit of employees. Consequently, the requirement that amounts deferred under a section 457 plan be subject to the claims of the employer's creditors would be repealed with respect to section 457 plans of a governmental employer The trust would be provided tax-exempt status. As under current law, amounts would not be includible in income until paid or made available to the employee, notwithstanding any tax provisions relating to economic benefit (e g , without regard to section 83 or section 402(b))

Other present-law requirements applicable to section 457 plans, including the annual limit on the maximum amount of deferral, would continue to apply To the extent these requirements, including the trust requirement, were not satisfied, amounts deferred would be includible in the employee's income when there is no substantial risk of forfeiture.

The proposal would not alter the present-law rules applicable to eligible section 457 plans of tax-exempt employers or the rules applicable to ineligible plans of governmental or tax-exempt employers.

The proposal would be effective for amounts under a section 457 plan on the date of enactment, but amounts would not be required to be held in trust until the end of the first calendar quarter beginning after the end of the first regular session (treating a two-year legislative session as two separate one-year sessions) of the State legislature of the State in which the governmental entity maintaining the plan is located that begins after the date of enactment.

CHAPTER 2 -- SIMPLIFICATION AND COST SAVINGS

TREATMENT OF GOVERNMENTAL AND MULTIEMPLOYER PLANS UNDER SECTION 415 AND TREATMENT OF EXCESS BENEFIT PLANS

(Section 1201)

Current Law

Annual benefits payable under a defined benefit plan are limited to the lesser of $120,000 (for 1996) or 100 percent of "three-year-high average compensation." (Reductions in the dollar or percentage limit for defined benefit plans may be required if the employee has fewer than 10 years of plan participation or service.) If benefits under a defined benefit plan begin before social security retirement age, the dollar limit must be actuarially reduced to compensate for the earlier commencement. Certain special rules apply to governmental plans

The amount of reasonable compensation that may be provided to an employee under a nonqualified deferred compensation arrangement maintained by a for-profit organization generally is not subject to any limitation. Many such employers maintain a nonqualified "excess benefit plan" that provides benefits for certain employees in excess of the limitations on annual contributions and benefits imposed by section 415 of the Code. The nonqualified deferred compensation is not taxable to the employee until it is paid or otherwise made available to the employee to draw upon at any time.

Section 457 sets forth the tax rules applicable to nonqualified deferred compensation provided by a State or local governments or tax-exempt organization. Under section 457, an employee who elects to defer the receipt of compensation under an "eligible plan" is taxed on the amounts deferred when the amounts are paid or made available. A section 457 plan is not an eligible plan unless, among other requirements, annual deferrals for an employee are limited to the lesser of $7,500 or 33 1/3 percent of compensation. If a plan for the deferral of compensation is not an "eligible plan," the deferred compensation is taxed to the participant in the first taxable year in which the compensation is not subject to a substantial risk of forfeiture, even if the compensation is not paid or otherwise made available to the participant until a later date

Reasons for Change

The qualified plan limitations are uniquely burdensome for governmental plans, which have long-established benefits structures and practices that may conflict with the limitations. In addition, some State constitutions may significantly restrict the ability to make the changes needed to conform the plans to these limitations

These limitations also present problems for many multiemployer plans. These plans typically base benefits on years of credited service, not on a participant's compensation. In addition, the 100 percent-of-compensation limit is based on an employee's average compensation for the three highest *consecutive* years. This rule often produces an artificially low limit for employees in certain industries, such as building and construction, where wages vary significantly from year to year.

An excess benefit plan provides to certain employees -- those whose contributions or benefits are reduced by the section 415 limits -- contributions or benefits that are already provided to other employees under a qualified plan. Even though an excess benefit plan does not provide management employees with disproportionately higher benefits than those provided to lower paid employees, the restrictions of section 457 still apply to such a plan if it is maintained by a State or local government or tax-exempt organization. These employers are therefore at a disadvantage in attempting to provide all employees with proportionate contributions or benefits.

Proposal

The rules for governmental plans and multiemployer plans would be modified to eliminate the 100 percent-of-compensation limit (but not the $120,000 limit) for such plans, and to exempt certain survivor and disability benefits from the adjustments for early commencement and for participation and service of less than 10 years. To the extent that governmental employers have previously made elections that would prevent them from utilizing these simplification provisions, the proposal would allow those employers to revoke their elections.

The proposal would exempt excess benefit plans of State and local governments and tax-exempt organizations from section 457. The exemption would not apply to an excess benefit plan that also provided benefits in excess of qualified plan limitations other than the section 415 limits.

These proposals generally would be effective for years beginning after December 31, 1996. The provisions relating to governments would be effective for years beginning after December 31, 1995

DEFINITION OF COMPENSATION FOR SECTION 415 PURPOSES
(Section 1202)

Current Law

Annual additions to a defined contribution plan for any participant are limited to the lesser of $30,000 (for 1996) or 25 percent of compensation. Annual benefits payable under a defined benefit plan are limited to the lesser of $120,000 (for 1996) or 100 percent of "three-year-high average compensation." For purposes of the various compensation limits, compensation generally does not include employer contributions (including elective deferrals) made to section 401(k) plans, section 403(b) annuities, section 125 cafeteria plans, and certain other employee benefit plans.

Reasons for Change

The exclusion of elective deferrals restricts the amount that employees can accrue under a qualified plan. Because the dollar limit is usually the operative limit for a highly compensated employee, and the percent-of-compensation limit is usually the operative limit for nonhighly compensated employees, the exclusion of elective contributions from the definition of compensation is not only complicated, but it primarily limits benefits for nonhighly compensated employees.

Proposal

Under the proposal, elective contributions would be considered compensation for purposes of the annual limits on contributions and benefits. This proposal would be effective for years beginning after December 31, 1996.

ASSUMPTIONS FOR ADJUSTING CERTAIN BENEFITS OF DEFINED BENEFIT PLANS FOR EARLY RETIREES

(Section 1203)

Current Law

Annual benefits payable under a defined benefit plan are limited to the lesser of $120,000 (for 1996) or 100 percent of "three-year-high average compensation." (Reductions in the dollar or percentage limit for defined benefit plans may be required if the employee has fewer than 10 years of plan participation or service.) If benefits begin before social security retirement age, the dollar limit must be actuarially reduced to compensate for the earlier commencement. Certain special rules apply to governmental plans. In addition, if benefits are paid in a form other than a straight life annuity (or a joint and survivor annuity), the benefits must be adjusted tc an actuarially equivalent straight life annuity prior to comparison with the dollar limitation.

The reduction to the dollar limit for commencement between age 62 and social security retirement age is based on the early commencement factors used for social security. The interest rate that must be used for the actuarial reductions for any commencement prior to age 62, and for purposes of the benefit adjustment, depends on the form of the benefit that is being paid. If the benefit is being paid in an annuity distribution, the interest rate that must be used for both of these adjustments is the greater of 5 percent or the interest rate used for the parallel adjustments under the plan. However, if the benefit is being paid in a nonannuity form (e.g., a single sum distribution), the interest rate that must be used for both of these adjustments is the greater of the interest rate applicable under section 417(e)(3) or the interest rate used for the parallel adjustments under the plan.

Reasons for Change

The requirement that the interest rate used for the early commencement actuarial adjustment vary depending on whether or not the benefit is payable in an annuity form adds complexity to the calculation of the maximum benefit limitations that is not justified.

Proposal

The actuarial assumptions to be used for adjusting the $120,000 limit for commencement prior to age 62 would be based on the greater of 5 percent or the interest rate used for this purpose under the plan, without regard to the form of benefit that is being paid. This proposal would be effective as if it were included in the Retirement Protection Act of 1994

TREATMENT OF DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENT AND TAX-EXEMPT ORGANIZATIONS

(Section 1204)

Current Law

The amount of reasonable compensation that may be provided to an employee under a nonqualified deferred compensation arrangement maintained by a for-profit organization generally is not subject to any limitation. Many such employers maintain a nonqualified "excess benefit plan" that provides benefits for certain employees in excess of the limitations on annual contributions and benefits imposed by section 415 of the Code. The nonqualified deterred compensation is not taxable to the employee until it is paid or otherwise made available to the employee to draw upon at any time.

Section 457 sets forth the tax rules applicable to nonqualified deferred compensation provided by a State or local governments or tax-exempt organization. Under section 457, an employee who elects to defer the receipt of compensation under an "eligible plan" is taxed on the amounts deferred when the amounts are paid or made available. If a plan for the deferral of compensation is not an "eligible plan," the deferred compensation is taxed to the participant in the first taxable year in which the compensation is not subject to a substantial risk of forfeiture, even if the compensation is not paid or otherwise made available to the participant until a later date

A section 457 plan is not an eligible plan unless, among other requirements, annual deferrals for an employee are limited to the lesser of $7,500 or 33 1/3 percent of compensation. In contrast to other dollar limitations applicable to employee benefit plans, the $7,500 limit is not indexed for cost of living. In addition, amounts deferred under an eligible plan may not be made available to a participant before the earlier of the calendar year in which the participant attains age 70 ½, the participant's separation from service, or an unforeseeable emergency. Benefits under an eligible plan are not considered made available if the participant may elect to receive a lump sum payable after separation from service and within 60 days of the election. However, this exception is available only if the total amount payable to the participant under the plan does not exceed $3,500 and no additional amounts may be deferred under the plan with respect to the participant

Reasons for Change

In order to maintain the value of deferrals under an eligible section 457 plan, the dollar limits on deferrals should be indexed in a manner that is consistent with the way other plan dollar limits are indexed. In addition, the existing constructive receipt rules that apply to section 457 plans are unnecessarily restrictive

Proposal

The proposal would provide for increases in the $7,500 limit, based on changes in the cost of living since 1994. The indexed value would be rounded down to the next lower multiple of $500

The proposal would also permit the in-service distribution of a participant's account if that account did not exceed $3,500, no amount was deferred under the plan with respect to the participant for two years, and there was no prior distribution under this cash-out rule In addition, the proposal would allow an additional election to be made with respect to the time distributions must begin under the plan. The amount payable to a participant under an eligible plan would not be treated as made available merely because the participant could elect to defer commencement of distributions under the plan after amounts could be distributed under the plan but before the actual commencement of benefits. Only one such additional election would be permitted.

These proposals would be effective for taxable years beginning after December 31, 1996.

NO REQUIRED DISTRIBUTIONS FOR ACTIVE EMPLOYEES
(Section 1205)

Current Law

Under current law, an employee who participates in a qualified employer retirement plan must begin taking distributions of his or her benefit by the April 1 following the year in which he or she reaches age 70 ½. Generally, the so-called "minimum distribution" for any year is determined by dividing the employee's account balance or accrued benefit by the employee's life expectancy

Reasons for Change

If the employee is still working and accruing new benefits at age 70 ½, the new benefits must be taken into account to determine the minimum amount required to be distributed for the same year. In effect, a portion of each year's new benefit accrual is required to be distributed in the same year. This pattern of contemporaneous contributions and required distributions causes considerable complication and confusion

Proposal

The requirement to distribute benefits before retirement would be eliminated, except for employees who own more than 5 percent of the employer that sponsors the plan. Instead, distributions would have to begin by the April 1 following the *later of* the year in which the employee reaches age 70 ½ or the year in which the employee retires from service with the employer maintaining the plan If payment of an employee's benefits were delayed past age 70 ½ pursuant to this rule, the benefits ultimately paid at retirement would have to be actuarially increased to take into account the delay in payment Without this increase, the delay in payment could cause the employee to "lose" the benefit payments that would otherwise have been paid between age 70 ½ and retirement. The actuarial adjustment rule and the 5 percent owner rule would not apply to a governmental plan or a church plan

The age-70 ½ requirement would continue to apply to IRAs. Because an IRA is not maintained by an employer, the initial payment date for an IRA cannot be tied to retirement from the employer maintaining the plan (Note that this Act also includes a separate item that would change the age-70 ½ rule to an age-70 rule)

The proposal would be effective for years beginning after December 31, 1996

SIMPLIFY TAXATION OF ANNUITY DISTRIBUTIONS
(Section 1206)

Current Law

If an employee makes after-tax contributions to a qualified employer retirement plan or IRA, those contributions (i.e., the employee's "basis") are not taxed upon distribution. When the plan distributions are in the form of an annuity, a portion of each payment is considered nontaxable return of basis. This nontaxable portion is determined by multiplying the distribution by an exclusion ratio. The exclusion ratio generally is the employee's total after-tax contributions divided by the total expected payments under the plan over the term of the annuity.

Reasons for Change

The determination of the total expected payments, which is based on the type of annuity being paid, often involves complicated calculations that are difficult for the average plan participant. Because of the difficulty an individual may face in calculating the exclusion ratio, and in applying other special tax rules that may be applicable, the IRS in 1988 provided a simplified alternative method for determining the nontaxable portion of an annuity payment. However, this alternative has effectively added to the existing complexity because taxpayers feel compelled to calculate the nontaxable portion of their payments under every possible method in order to ensure that they maximize the nontaxable portion.

Proposal

A simplified method for determining the nontaxable portion of an annuity payment, similar to the current simplified alternative, would become the required method. Taxpayers would no longer be compelled to do calculations under multiple methods in order to determine the most advantageous approach.

Under the simplified method, the portion of an annuity payment that would be nontaxable is generally equal to the employee's total after-tax employee contributions, divided by the number of anticipated payments listed in a table (based on the employee's age as of the annuity starting date).

The proposal would be effective with respect to annuity starting dates on or after January 1, 1997.

REPEAL FIVE-YEAR AVERAGING FOR LUMP SUM DISTRIBUTIONS
(Section 1207)

Current Law

A distribution that satisfies the many requirements necessary to qualify as a "lump sum distribution" is eligible for five-year forward averaging. Under this method, the tax that is owed on the lump sum distribution is separately calculated and added to the individual's other income tax for the year. The separate tax is approximately equal to five times the tax that would apply to one-fifth of the distribution, assuming the taxpayer had no other taxable income. Because the tax on the distribution is calculated separately from other income and because the distribution is taxed at the marginal rate that would apply to one-fifth of the distribution, a recipient who receives a large distribution in one taxable year may be able to benefit from a lower marginal tax rate by using five-year forward averaging.

Prior to the Tax Reform Act of 1986 (TRA 1986), lump sum distributions were eligible for 10-year averaging rather than five-year averaging. In addition, the portion of a lump sum distribution attributable to pre-1974 services could be treated as capital gain. These rules may be used currently only if the employee attained age 50 before January 1, 1986.

Reasons for Change

Both the definition of a lump sum distribution and the calculation of tax under the five-year averaging method are complicated. In addition, the problem that five-year averaging addresses (i.e., avoiding the bunching of income in one year, resulting in an unusually high tax rate for that year) can be achieved by rolling over a lump sum distribution to an IRA without tax and taking periodic payments from the IRA over five years or more. In 1992, the availability of tax-free rollovers was expanded and the rules for rollovers were simplified significantly.

Proposal

The five-year averaging rules would be repealed, effective for lump sum distributions after December 31, 1998. However, the grandfather provisions of TRA 1986 that permit ten-year averaging and capital gain treatment to be used by employees who attained age 50 before January 1, 1986 would be retained.

ELIMINATION OF HALF-YEAR REQUIREMENTS
(Section 1208)

Current Law

In general, distributions from qualified employer plans and IRAs prior to age 59 ½ are subject to a 10 percent penalty. In addition, under certain plans (such as section 401(k) plans), distributions before age 59 ½ are generally prohibited. Minimum distributions from IRAs and qualified employer plans are required to begin after attainment of age 70 ½. (Note that this Act also includes a separate item that would eliminate the requirement that distributions from qualified employer plans begin by age 70 ½ for employees, other than more-than-5 percent owners, who have not yet retired.)

Reasons for Change

Requirements based on half years are not as simple to apply or communicate as requirements based on whole years, and may lead to confusion as to when distributions to IRA and qualified plan participants must commence and when distributions may be subject to penalty. The exact date on which an individual reaches age 59 ½ or age 70 ½ may not be readily apparent, whereas an individual's date of birth is obviously known to the individual and is typically included in plan and employer records.

Proposal

To simplify these provisions, all references to age 59 ½ would be changed to age 59, and all references to age 70 ½ would be changed to age 70.

The proposal would be effective for years beginning after December 31, 1996.

DISTRIBUTIONS UNDER RURAL COOPERATIVE PLANS
(Section 1209)

Current Law

Under a section 401(k) plan, distributions are generally only allowed after separation from service, death, disability, attainment of age 59 ½, or hardship However, 401(k) plans that qualify as "rural cooperative plans" (e.g., 401(k) plans maintained by rural electrical cooperatives or cooperative telephone companies) are money purchase pension plans Therefore, in accordance with the distribution restrictions generally applicable to pension plans, these plans cannot allow distributions prior to the earlier of a participant's separation from service or normal retirement

Reasons for Change

It is appropriate to allow a 401(k) plan maintained by a rural cooperative to permit distributions to plan participants under the same circumstances as a 401(k) plan maintained by other employers

Proposal

The rules governing distributions from a 401(k) plan of a rural cooperative would be conformed to those that apply to other 401(k) plans by allowing distributions after attainment of age 59 ½ and upon financial hardships This proposal would be effective for distributions after date of enactment

MODIFICATION OF ADDITIONAL PARTICIPATION REQUIREMENTS
(Section 1210)

Current Law

Under current law, every qualified defined benefit plan or defined contribution plan is required to cover at least 50 employees or, in smaller companies, 40 percent of all employees of the employer. This rule was intended primarily to prevent an employer from establishing individual defined benefit plans for highly compensated employees in order to provide those employees with more favorable benefits than those provided to lower paid employees under a separate plan. The rule prevents an employer from favoring one small group of participants over another by, for example, covering them under two separate plans and funding one plan better than the other.

Reasons for Change

As applied to defined contribution plans, the minimum participation rule adds complexity for employers without delivering commensurate benefits to the system, given that the nondiscrimination rules also prevent qualified retirement plans from unduly favoring the top-paid group of employees. The abuses intended to be addressed by the minimum participation requirement rarely arise in the context of defined contribution plans. Accordingly, this requirement adds unnecessary administrative burden and complexity with respect to these plans.

Proposal

The minimum participation rule would be repealed for defined contribution plans. In addition, if an employer had only two employees, the rule for defined benefit plans would be modified to require any such plan to cover both employees.

The proposal would be effective for plan years beginning after December 31, 1996.

UNIFORM RETIREMENT AGE
(Section 1211)

Current Law

Several of the statutory requirements for qualified employer plans involve "normal retirement age." Under most of these provisions, normal retirement age can be no later than age 65. However, under certain other provisions, normal retirement is the social security retirement age (currently age 65, but scheduled to increase).

Reasons for Change

Many retirement plans base benefits on social security age in order for the benefits to complement social security. Yet, under current law, the use of social security retirement age (which is not uniform among participants) may cause the plan to fail applicable nondiscrimination tests, since those tests generally require the use of a retirement age that is uniform among participants.

Proposal

Under the proposal, the social security retirement age would be a uniform retirement age for purposes of the nondiscrimination rules. In addition, subsidized early retirement benefits and joint and survivor annuities would not be treated as not being available to employees on the same terms merely because they were based on an employee's social security retirement age.

This proposal would be effective for years beginning after December 31, 1996.

TREATMENT OF LEASED EMPLOYEES
(Section 1212)

Current Law

Individuals who are "leased employees" of a service recipient are considered to be employees of that recipient for qualified retirement plan and certain other purposes. A "leased employee" is any person who is not a common-law employee of the recipient and who provides services to the recipient if (1) the services are provided pursuant to an agreement between the recipient and the employer of the service provider, (2) the person has performed the services for the recipient on a substantially full-time basis for at least one year, and (3) the services are of a type historically performed, in the business field of the recipient, by employees.

Reasons for Change

The historically performed standard produces many unintended and inappropriate results. For example, under this standard, employees and partners of a law firm could be leased employees of a client of the firm if they work a sufficient number of hours for the client, assuming that it is not unusual for employers in the client's business to have in-house counsel.

Proposal

The "historically performed" test would be replaced by a test that considers whether the services performed for the recipient are performed under significant direction or control by the recipient.

This proposal would generally be effective for years beginning after December 31, 1996, but would not apply to relationships that have been previously determined by an IRS ruling not to involve leased employees.

FULL FUNDING LIMITATION FOR MULTIEMPLOYER PLANS
(Section 1213)

Current Law

An employer's annual deduction for contributions to a defined benefit plan is generally limited to the amount by which 150 percent of the plan's current liability (or, if less, 100 percent of the plan's accrued liability) exceeds the value of the plan's assets. The 150 percent-of-current-liability limit restricts the extent to which an employer can deduct contributions for benefits that have not yet accrued.

Defined benefit plans are required to have an actuarial valuation no less frequently than annually.

Reasons for Change

An employer has little, if any, incentive to make "excess" contributions to a multiemployer plan. The amount an employer contributes to a multiemployer plan is fixed by the collective bargaining agreement, and a particular employer's contributions are not set aside to pay benefits solely to the employees of that employer.

Proposal

The 150 percent limit on deductible contributions would be eliminated for multiemployer plans. Therefore, the annual deduction for contributions to such a plan would be limited to the amount by which the plan's accrued liability exceeds the value of the plan's assets. In addition, actuarial valuations would be required under the Code no less frequently than every three years for multiemployer plans. Parallel changes would be made to ERISA.

The proposal would be effective for years beginning after December 31, 1996.

ELIMINATION OF PARTIAL TERMINATION RULES FOR MULTIEMPLOYER PLANS

(Section 1214)

Current Law

When a qualified retirement plan is terminated, all plan participants are required to become 100 percent vested in their accrued benefits to the extent those benefits are funded In the case of certain "partial terminations" that are not actual plan terminations (e.g., a large reduction in the work force), all affected employees must become 100 percent vested in their benefits accrued to the date of the termination, to the extent the benefits are funded

Whether a partial termination has occurred in a particular situation is generally based on the specific facts and circumstances of that situation, including the exclusion from the plan of a group of employees who have previously been covered by the plan, by reason of a plan amendment or severance by the employer In addition, if a defined benefit plan stops or reduces future benefit accruals under the plan, a partial termination is deemed to occur if, as a result, a potential reversion of plan assets to the employer is created or increased

Reasons for Change

Over the years, court decisions have left unanswered many key questions as to how to apply the partial termination rules. Accordingly, applying the rules can often be difficult and uncertain, especially for multiemployer plans For example, multiemployer plans experience frequent fluctuations in participation levels caused by the commencement and completion of projects that involve significant numbers of union members Many of these terminated participants are soon rehired for another project that resumes their active coverage under the plan In addition, it is common for participants leaving one multiemployer plan's coverage to maintain service credit under a reciprocal agreement if they move to the coverage of another plan sponsored by the same union As a result, these participants do not suffer the interruption of their progress along the plan's vesting schedule that ordinarily occurs when an employee stops being covered by a plan Given these factors, and the related proposal to require multiemployer plans to vest participants after five (instead of the current ten) years of service, the difficulties associated with applying the partial termination rules to multiemployer plans outweigh the benefits

Proposal

The requirement that affected participants become 100 percent vested in their accrued benefits (to the extent funded) upon the partial termination of a qualified employer retirement plan would be repealed with respect to multiemployer plans

The proposal would be effective for partial terminations that begin on or after January 1, 1997.

ELECTIVE DEFERRALS UNDER SECTION 403(b)
(Section 1215)

Current Law

Annual elective deferrals made by an employee under a section 403(b) annuity plan generally are limited to $9,500. Elective deferrals in excess of this limit may be corrected by distributing the excess deferrals no later than April 15 of the year following the year of deferral. If the excess is not timely corrected, the excess deferrals are includible in the employee's income in the year of deferral and again in the year of distribution. In addition, a 403(b) annuity plan must provide that elective deferrals made under the plan may not exceed the annual limit. Plans that do not comply with this requirement may lose their tax-qualified status.

Reasons for Change

Employees participating in a 403(b) annuity plan should not be adversely affected if other employees violate the annual limit on elective contributions with respect to their individual contracts or custodial accounts.

Proposal

Under the proposal, each 403(b) annuity contract, not the 403(b) plan, must provide that elective deferrals made under the contract may not exceed the annual limit.

This proposal would be effective for years beginning after December 31, 1996.

UNIFORM PENALTY PROVISIONS TO APPLY TO CERTAIN PENSION REPORTING REQUIREMENTS

(Section 1216)

Current Law

The penalty structure for failure to provide information reports with respect to pension payments is currently separate and different from the penalty structure that applies to information reporting in other areas. The penalty for failure to file a Form 1099-R report of pension distributions is currently $25 per day per return, up to a maximum of $15,000 per year per return. The penalty for failure to file a Form 5498 IRA report is currently a flat $50 per return, with no maximum, regardless of the number of returns.

In contrast, the penalty for failure to file any other information return is generally $50 per return up to $250,000 per year, with lower penalties and maximums if the return is filed within specified times. (The penalty is $15 per return filed late but within 30 days and $30 per return filed late but on or before August 1.) Lower maximums also apply to persons with gross receipts of no more than $5 million. The penalty for failure to furnish a payee statement is $50 per payee statement up to $100,000 per year. (Under a separate proposal, the general penalty amount would be increased to the greater of $50 per return or five percent of the total amount required to be reported, unless the aggregate amount reported by the trustee for the calendar year is at least 97 percent of the amount required to be reported.) Separate penalties apply in the case of intentional disregard of the requirement to furnish a payee statement.

Reasons for Change

Conforming the information reporting penalties that apply with respect to pension payments to the general information reporting penalty structure would simplify the overall penalty structure by providing uniformity and would provide more appropriate penalties with respect to pension payments.

Proposal

The penalties for failure to provide information reports with respect to pension payments would be conformed to the general penalty structure. Thus, the penalty for failure to file Form 1099-R would generally be reduced (for any return that was late by more than two days). The penalty for failure to file Form 5498 would generally remain the same as under current law, but would no longer be unlimited. In addition, for both Form 1099-R and Form 5498, the penalties would be reduced if the forms were filed late but within specified times.

The proposal would apply to returns and statements for which the due date (determined without regard to extensions) is after December 31, 1996.

TAX ON PROHIBITED TRANSACTIONS
(Section 1217)

Current Law

A "prohibited transaction" under section 4975 is generally any transaction between a plan and a person who is considered a "disqualified person" with respect to the plan. Unless exempt by statute or by an individual or class exemption, a prohibited transaction gives rise to an excise tax (imposed on the disqualified person) equal to 5 percent of the amount involved in the transaction. If the transaction is not corrected, an additional 100 percent excise tax may be imposed. ERISA includes a parallel civil penalty for any prohibited transactions involving a plan that is not subject to section 4975 of the Code.

Reasons for Change

A 10 percent excise tax should be more effective in discouraging prohibited transactions than the current 5 percent excise tax.

Proposal

The proposal would increase the initial excise tax on transactions from 5 percent to 10 percent, effective for transactions occurring after December 31, 1996. A parallel change would be made to the ERISA civil penalty.

DATE FOR ADOPTION OF PLAN AMENDMENTS

(Section 1218)

Current Law

Plan amendments that are made to reflect amendments to the Internal Revenue Code must generally be made by the employer's income tax return due date for the employer's taxable year in which the change in the law occurs.

Reasons for Change

Plan sponsors should be given adequate time to amend plan documents following the enactment of legislation that requires plans to be amended

Proposal

In order to ensure that plan sponsors have adequate time to amend plan documents, plan amendments required by this Title would not be required to be made before the end of the first plan year beginning on or after January 1, 1998, if the plan were operated in accordance with the applicable provision and the amendment were retroactive to the effective date of the applicable provision Governmental employers would have a later date

SUBTITLE B --EXPANDED INDIVIDUAL RETIREMENT ACCOUNTS TO INCREASE COVERAGE AND PORTABILITY

(Sections 1301 - 1331)

Current Law

Under current law, an individual may make deductible contributions to an individual retirement account or individual retirement annuity (IRA) up to the lesser of $2,000 or compensation (wages and self-employment income). (The dollar limit is $2,250 if the individual's spouse has no compensation.) If the individual (or the individual's spouse) is an active participant in an employer-sponsored retirement plan, the $2,000 limit on deductible contributions is phased out for couples filing a joint return with adjusted gross income (AGI) between $40,000 and $50,000, and for single taxpayers with AGI between $25,000 and $35,000. To the extent that an individual is not eligible for deductible IRA contributions, he or she may make nondeductible IRA contributions (up to the contribution limit).

The earnings on IRA account balances are not includable in gross income until they are withdrawn. Withdrawals from an IRA (other than withdrawals of nondeductible contributions) are includable in income, and must begin by age 70½. Amounts withdrawn before age 59½ are generally subject to an additional 10-percent tax This 10-percent early withdrawal tax does not apply to distributions upon the death or disability of the taxpayer or to substantially equal periodic payments over the life (or life expectancy) of the IRA owner or over the joint lives (or life expectancies) of the IRA owner and his or her beneficiary. In general, an excess distribution tax of 15 percent applies to the extent that an individual receives an aggregate amount of retirement distributions in excess of $155,000 in any year

Reasons for Change

The Administration believes that individuals should be encouraged to save, both in order to provide for long-term needs, such as retirement and education, and in order to sustain a sufficient level of private investment to continue the healthy growth of the economy. Targeted tax policies can provide an important incentive for savings. Under current law, however, savings incentives in the form of deductible IRAs are not available to all middle-income taxpayers. Furthermore, the present-law income thresholds for deductible IRAs and the maximum contribution amount are not indexed for inflation, so that fewer Americans are eligible to make a deductible IRA contribution each year, and the amount of the maximum contribution is declining in real terms over time. The Administration also believes that providing taxpayers with the option of making IRA contributions that are nondeductible but can be withdrawn tax free will provide an alternative savings vehicle that some middle-income taxpayers may find more suitable for their savings needs.

Individuals save for many purposes besides retirement. Broadening the tax incentives for non-retirement saving can help increase the nation's savings rate. IRAs that are flexible enough to meet a variety of essential savings needs, such as first-time home purchases, higher education expenditures, unemployment, and catastrophic medical and nursing home expenses, should prove to be more attractive to many taxpayers than accounts that are limited to retirement savings.

Proposal

Expand Deductible IRAs

Under the proposal, the income thresholds and phase-out ranges for deductible IRAs would be doubled, in two stages. Beginning in 1996, eligibility would be phased out for couples filing joint returns with AGI between $70,000 and $90,000 and for single individuals with AGI between $45,000 and $65,000. Beginning in 1999, eligibility would be phased out for couples filing joint returns with AGI between $80,000 and $100,000 and for single individuals with AGI between $50,000 and $70,000. The income thresholds and the present-law annual contribution limit of $2,000 would be indexed for inflation. As under current law, any individual who is not an active participant in an employer-sponsored plan and whose spouse is also not an active participant would be eligible for deductible IRAs regardless of income.

Under the proposal, the IRA contribution limit would be coordinated with the current-law limits on elective deferrals under qualified cash or deferred arrangements (section 401(k) plans), tax-sheltered annuities (section 403(b) annuities), and similar plans. The proposal also would provide that the current-law exclusion from the 10-percent early withdrawal tax for IRA withdrawals after an individual reaches age 59½ does not apply in the case of amounts attributable to contributions (excluding rollovers from tax-qualified plans or tax-sheltered annuities) made during the previous five years.

Special IRAs

Each individual eligible for a traditional deductible IRA would have the option of contributing an amount up to the contribution limit either to a deductible IRA or to a new "Special IRA." Contributions to this Special IRA would not be tax deductible, but distributions of the contributions would be tax-free. If the contributions remained in the account for at least five years, distributions of the earnings on the contributions also would be tax-free. Withdrawals of earnings from Special IRAs during the five-year period after contribution would be subject to ordinary income tax. In addition, such withdrawals would be subject to the 10-percent early withdrawal tax unless used for one of the four purposes described below.

The proposal would permit individuals whose AGI for a taxable year does not exceed the upper end of the new income eligibility limits ($100,000 for couples filing joint returns and $70,000 for single individuals) to convert balances in deductible IRAs into Special IRAs without being subject to the early withdrawal tax. The amount converted from the deductible IRA to the Special IRA generally would be includable in the individual's income in the year of the conversion. However, if a conversion was made before January 1, 1998, the converted amount included in the individual's income (and taken into account in applying the 15-percent excess distribution tax) would be spread evenly over four taxable years.

Distributions Not Subject to Early Withdrawal Tax

Amounts withdrawn from deductible IRAs and Special IRAs within the five-year period after contribution would not be subject to the early withdrawal tax, if the taxpayer used the amounts to pay post-secondary education costs, to buy or build a first home, to cover living costs if unemployed, or to pay catastrophic medical expenses (including certain nursing home costs)

Education expenses. The early withdrawal tax would not apply to the extent the amount withdrawn is used to pay qualified higher education expenses of the taxpayer, the taxpayer's spouse, the taxpayer's dependent, or the taxpayer's child or grandchild (even if not a dependent). In general, a withdrawal for qualified higher education expenses would be subject to the same requirements as the deduction for qualified educational expenses (e.g., the expenses are tuition and fees that are charged by educational institutions and are directly related to an eligible student's course of study).

In addition, to further assist taxpayers who are saving to pay these qualified higher education expenses, deductible IRAs and Special IRAs would be expressly permitted to invest in qualified State prepaid tuition program instruments to the extent provided by the Secretary. In general, a qualified State prepaid tuition program instrument is one issued under a program established or maintained by a State, that can be converted into a percentage of tuition expenses for an individual if the funds are used to pay tuition expenses, or can be redeemed for an amount not less than the purchase price (less any reasonable administrative fees), if the funds are not used for education. To the extent a qualified instrument held by an IRA is converted into tuition and fees, the IRA owner will be treated as having received a distribution from the IRA to pay qualified higher education expenses. No inference is intended as to the tax treatment of prepaid tuition programs under current law or for other purposes of the Code.

First-time home purchasers. The early withdrawal tax would not apply to the extent the amount withdrawn is used to pay qualified acquisition, construction, or reconstruction costs with respect to a principal residence of a first-time home buyer who is the taxpayer, the taxpayer's spouse, or the taxpayer's child or grandchild.

Unemployment. Withdrawals would not be subject to the early withdrawal tax if (1) the individual has separated from employment, (2) the individual has received unemployment compensation for 12 consecutive weeks, and (3) the withdrawal is made during the taxable year in which the unemployment compensation is received or the succeeding taxable year.

Medical care expenses and nursing home costs. The proposal would extend to IRAs the present-law exception to the early withdrawal tax for distributions from qualified plans and tax-sheltered annuities for certain medical care expenses (deductible medical expenses that are subject to a floor of 7.5 percent of AGI) and would expand the exception for IRAs to allow withdrawal for medical care expenses (in excess of 7.5 percent of AGI) of the taxpayer's child, grandchild, parent or grandparent, whether or not that person otherwise qualifies as the taxpayer's dependent.

In addition, for purposes of the exclusion from the early withdrawal tax for distributions from IRAs, the definition of medical care would include expenses for qualified long-term care services for incapacitated individuals.

All of the proposed IRA provisions would be effective January 1, 1996. Conditions under which the IRA provisions would continue or terminate after December 31, 2000 are generally described in the Budget of the United States Government, Fiscal Year 1997, page 1.

SUBTITLE C -- OTHER EXPANSIONS OF PENSION PORTABILITY

ALTERNATIVE NONDISCRIMINATION RULES FOR CERTAIN PLANS THAT PROVIDE FOR EARLY PARTICIPATION

(Section 1401)

Current Law

The actual deferral percentage (ADP) test applicable to section 401(k) plans compares the average rate of elective contributions for nonhighly employees who "benefit" under the plan with the average rate of elective contributions for highly compensated employees who benefit under the plan For this purpose, an employee is considered to benefit under the plan if the employee is eligible for elective contributions A similar actual contribution percentage (ACP) test applies to employer matching contributions and employee after-tax contributions under section 401(m)

In general, a plan need not permit employees to enter a plan prior to the attainment of age 21 and the completion of 1 year of service For purposes of testing nondiscrimination (including the ACP and ADP tests), an employer that chooses less restrictive entry conditions (e.g., age 18 rather than age 21) may choose "separate testing" under which all employees who have not met the statutory age and service entry maximums are disregarded, provided that the plan satisfies the nondiscrimination rules taking into account only those employees whose age and service are less than the statutory age and service maximums Thus, such a plan would apply one ADP test for employees who are over age 21 with 1 year of service, under which the plan would disregard the rates of elective contributions for other employees, and a second ADP test looking solely at the rates of elective contribution for employees under age 21 or who have not completed 1 year of service.

Reasons for change

Many employers do not permit employees to make salary reduction contributions or receive matching contributions until the employees meet certain specified age and service requirements (commonly age 21 and 1 year of service) Some employers are concerned that allowing these newly hired employees to participate in the plan might cause the plan to fail the ADP or ACP tests, even when the plan chooses the separate testing option of current law However, if newly hired employees are required to wait before payroll deductions can begin, they might not get into or continue the habit of saving for retirement through payroll deduction

Proposal

The proposal provides an alternative method of applying the ADP test for a section 401(k) plan that allows employees to participate before they have completed one year of service and reached age 21, if the plan satisfies the minimum coverage rules of section 410(b) using the option of section 410(b)(4)(B) Instead of applying two separate ADP tests, such a plan could apply a single ADP test that compares the average rate of elective contributions for all highly compensated employees who are eligible to make elective contributions with the average rate of elective contributions for those nonhighly compensated employees who are eligible to make elective contributions and who have completed one year of service and reached age 21 Similar rules would apply for purposes of the ACP test The provisions would be effective for plan years beginning after December 31, 1996

TREATMENT OF CERTAIN VETERANS' REEMPLOYMENT RIGHTS
(Section 1402)

Current Law

Under the Uniformed Services Employment and Reemployment Rights Act of 1994 ("USERRA"), which revised and restated the Federal law protecting veterans' reemployment rights, a returning veteran generally is entitled to the restoration of certain pension, profit sharing and similar benefits that would have accrued but for the employee's absence due to the military service. USERRA generally provides that service in the uniformed services is considered service with the employer for retirement plan benefit accrual purposes. USERRA also provides that the reemployed veteran is entitled to any accrued benefits that are contingent on the making of, or derived from, employee contributions or elective deferrals, but only to the extent the reemployed veteran makes payment to the plan with respect to such contributions or deferrals. No such payment may exceed the amount the reemployed veteran would have been permitted or required to contribute had the person remained continuously employed by the employer throughout the period of uniformed service.

USERRA generally became effective with respect to reemployments initiated on or after December 12, 1994. However, retirement plans not in compliance with the relevant provisions of USERRA on the date of its enactment (October 13, 1994) have two years to come into compliance.

Under the Code, annual limits are provided on contributions and benefits under certain retirement plans. For example, the maximum amount of elective deferrals that can be made by an individual pursuant to a qualified cash or deferred arrangement in any taxable year is limited to $9,500 in 1996. Certain other rules, such as rules relating to nondiscrimination, coverage, minimum participation, and top-heavy plans, might limit the amount that can be contributed to a plan on behalf of an employee. There is no special provision under present law that permits contributions or deferrals to exceed these limits for a reemployed veteran. Violations of these rules can result in plan disqualification. The Code also imposes certain limits on deductible contributions to retirement plans without any special provision for payments made on behalf of a reemployed veteran.

Reasons for Change

Amendments are needed to conform the Code's qualified retirement plan rules with USERRA.

Proposal

The proposal provides special rules in the case of certain contributions ("make-up contributions") with respect to a reemployed veteran that are made pursuant to USERRA, so as to conform the rules contained in the Code with the rights of reemployed veterans under USERRA. The proposal applies to make-up contributions made by an employer or employee to an individual account plan and to make-up contributions made by an employee to a defined benefit plan that provides for employee contributions.

Under the proposal, a make-up contribution is subject to the generally applicable plan contribution limits and the limit on deductible contributions for the year to which the contribution relates, not for the year in which the contribution is made The proposal also provides that a plan under which a make-up contribution is made will not be treated as failing to meet the qualified plan nondiscrimination, coverage, minimum participation, or top-heavy rules on account of the contribution In addition, the proposal provides that certain rules that apply to plan loans will not be violated merely because a plan suspends the repayment of a loan during a period of uniformed service

The proposal would be effective as of December 12, 1994, the effective date of the relevant USERRA provisions

ELIMINATION OF SPECIAL VESTING RULE FOR MULTIEMPLOYER PLANS
(Section 1403)

Current Law

The accrued benefits of a collectively bargained employee under a multiemployer retirement plan attributable to employer contributions are not currently required to become nonforfeitable (i.e., "vested") until the employee has completed 10 years of service. If the employee's employment terminates before then, all benefits can be lost. Accrued benefits of all other employees (i.e., employees under all non-multiemployer plans and any noncollectively bargained employees under a multiemployer plan) must vest after five years of service, or after seven years if partial vesting begins after three years.

Reasons for Change

The 10-year vesting schedule for multiemployer plans adds to the complexity of the pension law by providing different vesting schedules for different types of plans and for different people covered by the same plan. In addition, conforming the multiemployer plan vesting rules to the vesting rules for other plans would ensure that workers covered by multiemployer plans would become entitled to pension benefits on the same basis as workers covered by other plans.

Proposal

The special ten-year vesting rule applicable to multiemployer plans under the Code would be repealed. A parallel change to ERISA would be made.

This proposal would be effective for plan years beginning on or after the earlier of (1) the later of January 1, 1997, or the date on which the last of the collective bargaining agreements pursuant to which the plan is maintained terminates, or (2) January 1, 1999, with respect to participants who have at least one hour of service after the effective date.

TITLE II -- ERISA PROVISIONS

SUBTITLE A -- EXPANDED PENSION COVERAGE AND SIMPLIFICATION

REPORTING AND FIDUCIARY REQUIREMENTS RELATING TO NATIONAL EMPLOYEE SAVINGS TRUSTS

(Section 2001)

Current Law

Under the Employee Retirement Income Security Act of 1974 (ERISA), certain pension and welfare benefit plans are required to file an annual return/report (the Form 5500 series) regarding their financial condition, investments, and operations. The Form 5500 Series is the primary source of information concerning the operation, funding, assets, and investments of pension and other employee benefit plans. The Form 5500 Series is currently received and processed by the IRS through three designated IRS Service Centers.

Under ERISA, administrators of certain employee pension and welfare benefit plans are required to furnish each participant and beneficiary with a summary plan description (SPD), summaries of material modifications (SMMs) to the SPD and, at spec... d intervals, an updated SPD. Generally, these documents must also be filed with the Department of Labor. The SPD is intended to provide participants and beneficiaries with important information concerning their plan, the benefits provided by the plan, and their rights and obligations under the plan.

Finally, ERISA sets forth certain fiduciary responsibilities that apply with respect to covered pension and welfare benefit plans. For this purpose, a fiduciary includes, among others, any person who exercises any discretionary control respecting the management or disposition of plan assets. Generally, these rules require that fiduciaries discharge their duties prudently, in accordance with plan documents, that they diversify plan assets, and that the assets of the plan are used solely to provide benefits to participants and defray necessary expenses of the plan.

Reasons for Change

The tax-favored employer retirement plans currently available under the Internal Revenue Code (Code) have not been sufficiently successful in attracting small employers. The administrative cost and complexity associated with traditional qualified retirement plans often discourages small employers from sponsoring these plans.

Proposal

As described in greater detail in Title I, Chapter 1 of this legislation, the proposal would create a new, simple retirement plan for employers with 100 or fewer employees. The new plan would be known as the National Employee Savings Trust, or "NEST."

This section describes the special ERISA Title I rules applicable to the NEST.

Application of ERISA fiduciary rules: Under the NEST, the employer would be relieved from fiduciary liability in certain circumstances. After an applicable period, there would be no employer liability resulting from the (A) designation of the trustee or issuer of the account or (B) the manner in which the assets in the account are invested. The relief from fiduciary liability would apply after the earlier of (1) an affirmative election by the employee with respect to the initial investment of any contributions, (2) a rollover of contributions from an employee's NEST account to another IRA, or (3) one year after the individual's NEST account is established, provided that the participant has been properly notified that he or she had a right to direct investments, and a penalty-free right to roll over the NEST contributions. The assets held in the NEST would cease to be plan assets when rolled over to another IRA or otherwise distributed as benefits. Also, employers would be required to forward withheld participant contributions to the NEST trustee under the same rules applicable to section 401(k) plans.

Reporting Requirements: An employer maintaining a NEST would not be subject to any ERISA reporting requirements (e.g., Form 5500 filing). However, the NEST trustee or custodian would be required to report NEST contributions on Form 5498, on which IRA contributions are reported.

Disclosure. Employees would be required to be notified annually in writing of their rights under the plan, including, for example, the right to a matching contribution and information from the NEST trustee or issuer. Similarly, if an employer wanted to switch between safe harbor contribution formulas, the employer would be required to notify eligible employees which formula would be used for a year within a reasonable period of time before the beginning of the annual election period. (Employee elections to defer would occur in the last 60 days of each calendar year.)

ERISA SUMMARY PLAN DESCRIPTION FILING REQUIREMENTS

(Section 2002)

Current Law

Under ERISA, administrators of employee pension and welfare benefit plans are generally required to furnish each participant and beneficiary with a summary plan description (SPD), summaries of material modifications (SMMs) to the SPD and, at specified intervals, an updated SPD. These documents generally must also be filed with the Department of Labor (DOL). Filed SPDs, SMMs, and updated SPDs are required to be made available for public disclosure. These requirements are administered by the DOL's Pension and Welfare Benefits Administration (PWBA). The SPD is intended to provide participants and beneficiaries with important information concerning their plan, the benefits provided by the plan, and their rights and obligations under the plan. A penalty of up to $100 per day may be imposed by a court for failure to provide the participant or beneficiary with the SPD or SMM.

Reasons for Change

The primary purpose of having SPDs filed with the DOL is to have them available for participants and beneficiaries who are unable or reluctant to request them from their plan administrators. However, because SMMs summarizing plan changes are not required to be filed with DOL until 210 days after the end of the plan year, there is little, if any, certainty that the information on file with the DOL at any given point in time is up-to-date.

PWBA annually receives approximately 250,000 SPD and SMM filings. Although PWBA's cost for maintaining a filing, storage, and retrieval system for SPDs is relatively small (approximately $52,000 annually), compliance with the SPD filing requirements costs plans approximately $2.5 million annually, in addition to an annual imposition of an estimated 150,000 burden hours. On average, PWBA receives requests annually for about 2 percent of the filed SPDs. Many of the requests for SPDs come from researchers and others who are not plan participants and beneficiaries. While there is some limited benefit from the Federal government receiving and storing SPDs, the costs to the public and plans outweigh the benefits. This conclusion is consistent with the findings of the National Performance Review.

Proposal

The proposal would amend ERISA to eliminate the requirement that SPDs and SMMs be filed with the DOL. It would, however, authorize the DOL to obtain SPDs and other relevant documents from plan administrators for purposes of responding to individual requests or monitoring compliance with the SPD and SMM requirements. A plan administrator would be subject to a civil penalty of no more than $100 per day (up to a maximum of $1,000 per request) for failure to furnish the documents requested by the DOL within 30 days. The elimination of the SPD and SMM filing requirement would substantially reduce costs and burdens for public and private plan administrators, while preserving the ability of the DOL to assist participants who are unable or reluctant to request SPDs from their plan administrators.

This provision would be effective for SPDs and SMMs that otherwise would be required to be filed with the DOL on or after the date of enactment.

INVESTMENT OF INDIVIDUAL RETIREMENT ACCOUNTS IN QUALIFIED STATE PREPAID TUITION PROGRAMS

(Section 2003)

Current Law

Some States currently offer prepaid tuition programs to help families finance higher education. Certain IRAs constitute ERISA plans.

Reasons for Change

Some taxpayers may wish to invest IRA funds in State prepaid tuition programs to pay higher education expenses and may want assurance that such investments do not constitute prohibited transactions under ERISA. Another provision of this Act proposal amends the Internal Revenue Code to expressly permit IRAs to be invested in qualified State prepaid tuition program instruments, to the extent provided by the Secretary of the Treasury.

Proposal

The proposal makes a conforming change to Title I of ERISA by explicitly providing that IRA investments in qualified State prepaid tuition program instruments that meet the Code requirements would not be prohibited transactions

SUBTITLE B -- PORTABILITY

PBGC MISSING PARTICIPANT PROGRAM

(Section 2011)

Current Law

When a qualified retirement plan is terminated, there may be plan participants who cannot be located. If the plan is a defined benefit plan covered by the PBGC, the plan administrator must generally distribute plan assets by purchasing irrevocable commitments from an insurer to satisfy all benefit liabilities. If the plan is a defined contribution plan or other plan not covered by the PBGC, plan assets still must be distributed to participants before the plan is considered terminated.

Because of the problems that plan administrators and participants may face under these rules when plan participants cannot be located, the Retirement Protection Act of 1994 (RPA) provided special rules for the payment of benefits with respect to missing participants (including benefits for beneficiaries of deceased participants) under a terminating single-employer defined benefit plan covered by the PBGC. The rules require the plan administrator to (1) transfer the missing participant's designated benefit to the PBGC or purchase an annuity from an insurer to satisfy the benefit liability, and (2) provide the PBGC with such information and certifications with respect to the benefits or annuity as the PBGC may specify.

Reasons for Change

As currently enacted, these RPA rules apply only to single-employer defined benefit plans that are covered by PBGC. Yet other defined benefit plans, as well as defined contribution plans, face similar problems when they terminate and cannot locate missing participants.

Proposal

The PBGC's program for missing participants would be expanded to apply to multiemployer defined benefit plans, to defined contribution plans and to defined benefit plans not covered by PBGC (such as plans of small professional service employers). The program would not apply to govemmental plans or to church plans not covered by the PBGC. If a plan covered by the new program has missing participants when the plan terminates, it would be able to transfer the missing participants' benefits to the PBGC along with related information. If the benefit of a missing participant is not transferred to the PBGC or to another plan, the plan administrator would give the PBGC information with respect to the missing participant's benefit. This would provide administrators of terminating plans an entity (i.e., the PBGC) that would accept missing participants' benefits and would provide missing participants with a central repository for locating their benefits after a plan has been terminated.

This proposal would be effective with respect to distributions from terminating plans that occur after the PBGC has adopted final regulations implementing the provision.

ELIMINATION OF SPECIAL VESTING RULE FOR MULTIEMPLOYER PLANS
(Section 2012)

Current Law

The accrued benefits of a collectively bargained employee under a multiemployer pension plan attributable to employer contributions are not currently required to become nonforfeitable (i.e., "vested") until the employee has completed 10 years of service. If the employee's employment terminates before then, all such benefits can be lost. Accrued benefits of all other employees (i.e., employees under all non-multiemployer plans and any noncollectively bargained employees under a multiemployer plan) must vest after five years of service, or after seven years if partial vesting begins after three years.

Reasons for Change

The 10-year vesting schedule for multiemployer plans adds to the complexity of the pension law by providing different vesting schedules for different types of plans and for different people covered by the same plan. In addition, conforming the multiemployer plan vesting rules to the vesting rules for other plans would ensure that workers covered by multiemployer plans would become entitled to pension benefits on the same basis as workers covered by other plans.

Proposal

The special 10-year vesting rule applicable to multiemplcyer plans under ERISA would be repealed. A parallel change to the Internal Revenue Code would be made.

This proposal would be effective for plan years beginning on or after the earlier of (1) the later of January 1, 1997, or the date on which the last of the collective bargaining agreements pursuant to which the plan is maintained terminates, or (2) January 1, 1999, with respect to participants who have at least one hour of service after the effective date

VETERANS' REEMPLOYMENT
(Section 2013)

Current Law

Under the Uniformed Services Employment Rights Act of 1994 ("USERRA"), which revised and restated the Federal law protecting veterans' reemployment rights, a returning veteran generally is entitled to the restoration of certain pension, profit sharing and similar benefits that would have accrued but for the employee's absence due to the military service. USERRA generally provides that service in the uniformed services is considered service with the employer for retirement plan benefit accrual purposes. USERRA also provides that the reemployed veteran is entitled to any accrued benefits that are contingent on the making of, or derived from, employee contributions or elective deferrals, but only to the extent the reemployed veteran makes payment to the plan with respect to such contributions or deferrals.

USERRA generally became effective with respect to reemployment initiated on or after December 12, 1994. However, retirement plans not in compliance with the relevant provisions of USERRA on the date of its enactment (October 13, 1994) have two years to come into compliance.

The Internal Revenue Code and ERISA impose restrictions on loans from retirement plans to certain participants. However, neither ERISA nor USERRA has any special provision concerning a suspension of loan repayment by an individual who is absent from work during a period of uniformed service.

Reasons for Change

Another provision of this Act would amend the Internal Revenue Code to conform the Code's qualified retirement plan rules with USERRA and to provide that certain rules applicable to plan loans will not be violated merely because the plan suspends the repayment of a loan during a period of uniformed service. The amendment would make a conforming change to Title I of ERISA concerning the suspension of plan loan repayments.

Proposal

The proposal provides that certain rules that apply to plan loans in ERISA will not be violated merely because a plan suspends the repayment of a loan during a period of uniformed service. This proposal would be effective as of December 12, 1994, the effective date of the relevant USERRA provisions.

SUBTITLE C -- ENHANCED SECURITY
CHAPTER 1 -- GENERAL PROVISIONS

MULTIEMPLOYER PLAN BENEFITS GUARANTEED
(Section 2021)

Current Law

The Pension Benefit Guaranty Corporation guarantees benefits of workers in multiemployer plans. The monthly guarantee is equal to the participant's years of service multiplied by the sum of (i) 100 percent of the first $5 of the monthly benefit accrual rate, and (ii) 75 percent of the next $15 of the accrual rate.

Reasons for Change

The level of benefits guaranteed by the PBGC under the multiemployer program is modest and has not increased since 1980. For a retiree with 30 years of service, the maximum guaranteed annual benefit is $5,850. This compares to a maximum guaranteed annual benefit of about $31,700 under the PBGC's single-employer program, a maximum that is adjusted each year to reflect changes in the social security wage index.

Proposal

The proposal adjusts the amount guaranteed in multiemployer plans to account for changes in the social security wage index since 1980. Under the proposal, the PBGC would guarantee a monthly benefit equal to the participant's years of service multiplied by the sum of (i) 100 percent of the first $11 of the monthly benefit accrual rate, and (ii) 75 percent of the next $33 of the accrual rate. The proposed change would increase the maximum annual guarantee for a retiree with 30 years of service to $12,870.

The proposal would be effective for plans that have not received assistance payments from the PBGC during the 1-year period ending on the date of enactment.

REVERSION REPORT
(Section 2022)

Current Law

Under present law, defined benefit pension plan assets generally may not revert to an employer prior to the termination of the plan and the satisfaction of all plan liabilities. Any plan assets that revert to the employer upon such termination are includable in the gross income of the employer and subject to an excise tax. Employers that terminate defined benefit pension plans covered by the Pension Benefit Guaranty Corporation must report the termination to the PBGC and notify plan participants of their benefits.

Reasons for Change

During the 1980s, over $20 billion of pension assets reverted to corporations. The excise taxes subsequently imposed on pension reversions successfully curtailed these activities. However, the President and the Congress need to be informed regularly of any increase in reversions in order to review in a timely manner whether current law needs to be strengthened.

Proposal

The proposal requires the Secretary of Labor, as Chairman of the PBGC, to report on reversion activity annually to the President and the Congress.

FULL FUNDING LIMITATION FOR MULTIEMPLOYER PLANS

(Section 2023)

Current Law

An employer's annual deduction for contributions to a defined benefit plan is generally limited to the amount by which 150 percent of the plan's current liability (or, if less, 100 percent of the plan's accrued liability) exceeds the value of the plan's assets. The 150 percent-of-current-liability limit restricts the extent to which an employer can deduct contributions for benefits that have not yet accrued.

Defined benefit plans are required by ERISA to have an actuarial valuation no less frequently than annually.

Reasons for Change

An employer has little, if any, incentive to make "excess" contributions to a multiemployer plan. The amount an employer contributes to a multiemployer plan is fixed by the collective bargaining agreement, and a particular employer's contributions are not set aside to pay benefits solely to the employees of that employer.

Proposal

The 150 percent limit would be eliminated for multiemployer plans. Therefore, the annual deduction for contributions to a multiemployer plan would be limited to the amount by which the plan's accrued liability exceeds the value of the plan's assets. In addition, actuarial valuations would be required under ERISA no less frequently than every three years for multiemployer plans. Parallel changes would be made to the Internal Revenue Code.

These provisions would be effective for years beginning after December 31, 1996.

PROHIBITED TRANSACTIONS
(Section 2024)

Current Law

A "prohibited transaction" under section 406 is generally any transaction between a plan and a person who is considered a "party in interest" with respect to the plan. Unless exempt by statute or by an individual or class exemption or subject to an excise tax under section 4975 of the Internal Revenue Code, a prohibited transaction gives rise to a civil penalty (imposed on the party in interest) equal to 5 percent of the amount involved in the transaction. If the transaction is not corrected, an additional 100 percent civil penalty may be imposed.

Reasons for Change

A 10 percent penalty should be more effective in discouraging prohibited transactions than the current penalty of 5 percent.

Proposal

The proposal would increase the initial civil penalty from 5 percent to 10 percent, effective for transactions occurring after December 31, 1996.

A parallel change would be made to the Internal Revenue Code.

SUBSTANTIAL OWNER RULES RELATING TO PLAN TERMINATIONS

(Section 2025)

Current Law

ERISA contains very complicated rules for determining the benefits guaranteed by the Pension Benefit Guaranty Corporation (PBGC) for an individual who owns more than ten percent of a business (a "substantial owner") and who is a participant in the business's terminating plan. These rules were designed to prevent a substantial owner from establishing a plan, underfunding it, and terminating it in order to receive benefits from the PBGC. Under the rules, the PBGC guarantee with respect to a participant who is not a substantial owner is generally phased in over five years from the date of the plan's adoption or amendment. However, for a substantial owner, the guarantee is generally phased in over 30 years from the date the substantial owner begins participation in the plan. The substantial owner's benefit under each amendment within the 30 years before plan termination is separately phased in. A substantial owner's guaranteed benefit also cannot exceed twice the amount guaranteed under the original plan provisions. In addition, special rules apply for allocating assets with respect to substantial owners upon plan termination.

Reasons for Change

The substantial owner phase-in rules are complex and difficult to apply because of the need to obtain plan documents going back up to 30 years. The reduced guarantee for employees with less than a majority ownership interest penalizes employees who may have little, if any, control over plan benefit levels or funding decisions. It also unfairly penalizes substantial owners who granted themselves low benefits when they entered the plan. The substantial owner allocation of asset rules are confusing and complex to administer.

Proposal

The same five-year phase-in that currently applies to a participant who is not a substantial owner would apply to a substantial owner with less than a 50 percent ownership interest. For a substantial owner with a 50 percent or more ownership interest (a "majority owner"), the phase-in would depend on the number of years the plan has been in effect, rather than on the number of years the owner has been a participant and the initial plan benefit. Specifically, the guaranteeable plan benefit for a majority owner would be 1/30 for each year the plan has been in effect and the restriction that limits a substantial owner's guaranteed benefit to twice the amount guaranteed under the original plan provisions would be eliminated. This approach would eliminate the need for computations based on documents that are up to 30 years old. A majority owner's guaranteed benefit would be limited so that it could not be more than the amount that would be guaranteed under the regular five-year phase-in applicable to other participants. In addition the rules for allocating plan assets upon plan termination would be changed to treat substantial owners, other than majority owners, in the same manner as other participants and to simplify, in certain cases, the allocation with respect to majority owners.

The proposal would be effective for plan terminations for which notices of intent to terminate are provided (or for which proceedings for termination are instituted by the PBGC) on or after the date of enactment.

CHAPTER 2 -- ERISA ENFORCEMENT

REPEAL OF LIMITED SCOPE AUDIT
(Section 2032)

Current law

Current law generally requires the administrator of certain ERISA-covered plans with 100 or more participants to engage an independent public accountant to conduct an audit of the financial statements and of certain required schedules contained in the annual report to determine whether the financial statements are prepared and presented in accordance with Generally Accepted Accounting Principles (GAAP). Section 103(a)(3)(C) of ERISA contains the so-called "limited scope exemption" which allows the exclusion of assets which are held by certain regulated financial institutions (e.g., banks or similar institutions, or insurance companies) from the scope of the required financial audit if certain conditions are satisfied.

Reasons for Change

The limited scope audit provision has resulted in nearly half of pension plan assets, amounting to approximately 1 trillion dollars, not being subject to audit.

Proposal

The proposal would repeal the limited scope exemption. The provision, by eliminating the statutory scope limitation, would require inclusion of plan assets which are held by certain regulated financial institutions within the accountant's audit of the plan. This provision is not meant to require that the plan's accountant duplicate the work of the independent accountant who audits the financial institution's books and records. It is expected that, generally, the plan's accountant will encourage the use of Reports on the Processing of Transactions Service Organizations under American Institute of Certified Public Accountants Statement on Auditing Standards No. 70. Under this "single audit approach," affected banks and other institutions would instruct their independent auditors to prepare a special report that, in essence, would speak to the reliability of information generated by the bank and other financial institutions with respect to their actions regarding plan assets. Presently, plan auditors routinely obtain SAS 70 reports in connection with their full scope audits of plans. Only about half of plans subject to the audit requirement use limited scope audits. The remaining plans conduct full scope audits and many of those are already utilizing the single audit approach.

This "single audit approach" would fulfill the purposes of the audit requirement without imposing the additional cost of independently reviewing the financial institution's records. At the same time, accountants would no longer be required to disclaim an opinion on their audit reports. Such a report fails to provide assurance regarding the security of plan assets.

This change would apply for plan years beginning on or after January 1 of the calendar year immediately following the date of enactment.

REPORTING AND ENFORCEMENT REQUIREMENTS FOR EMPLOYEE BENEFIT PLANS

(Section 2033)

Current Law

Under current law, there is no specific duty for an administrator of an employee benefit plan, or an accountant who conducts a plan audit, to disclose promptly to the Secretary information indicating that a crime involving the plan, such as embezzlement, bribery, or kickbacks, may have occurred. Termination of an accountant from an auditing engagement is reportable when annual reports of plans with 100 or more participants are filed with the Secretary.

Reasons for Change

While plan accountants and auditors are often the first line of defense against fraud, current rules create a time lag between the detection of serious irregularities (i.e., embezzlement, bribery or kick backs) and the filing of an annual report with the government. This bill would require both plan administrators and accountants auditing plans who discover serious fraud or other egregious violations of law to promptly report them to the Department of Labor.

Proposal

Reporting of certain information. This section would require the administrator of an employee benefit plan to notify the Secretary of Labor within five business days whenever the administrator has determined that there is evidence that an irregularity may have occurred with respect to the plan, or has received notice from the accountant that the accountant has similarly determined that there is evidence that an irregularity may have occurred. The administrator would also be required to furnish a copy of such notification to the accountant engaged to audit the plan's financial statements.

An accountant engaged to audit a plan's financial statements would be required to notify the plan administrator within five business days when the accountant has determined that there is evidence that an irregularity may have occurred with respect to the plan. If the accountant has not received a copy of the administrator's notification to the Secretary within the required five-business-day period, the accountant must furnish the Secretary a copy of its notification to the plan administrator within the next business day following such failure to receive notice. No change in auditing procedures would be required by virtue of this notification standard.

Under the bill, an administrator who gets notice from an accountant would report the irregularity to the Department of Labor without being required to verify the information provided by the accountant. Administrators who independently discover evidence of serious problems, like the ones listed in the bill, can fairly be expected to recognize them in exercising their normal responsibilities as ERISA fiduciaries

At the same time, this standard does not require a report to the Department whenever the administrator or accountant receives any information concerning a possible irregularity. For example, if for some reason the plan administrator believes that the person providing the information is not trustworthy, the administrator would not be expected to file a report.

If the accountant determines that there is evidence that the irregularity may have involved an individual who is the plan administrator or a senior official of the plan administrator, the accountant shall not notify the plan administrator but shall instead notify the Secretary within five business days. It should be noted that accountants already have a responsibility to inform clients, including plan administrators, if they discover during the course of an audit that a crime or other irregularity may have occurred as a result of generally accepted auditing standards.

The requirement to report within five business days is realistic for reporting such serious violations. It should be noted that the "Private Securities Ligation Reform Act of 1995" imposes similar reporting requirements where an audit committee has not acted on an accountant's report.

For purposes of the notification requirements in the bill, the term "irregularity" means a theft, embezzlement, extortion, bribery, kickback, or criminal reporting or recordkeeping violation described in 18 U.S.C. §§ 664, 1951, 1954, and 1027 or any comparable provisions of State criminal law involving the plan or a violation of the criminal provisions of section 411, 501, and 511 of Title I of ERISA. Under the bill, however, the term "irregularity" does not include any acts involving less than one thousand dollars unless the accountant has reason to believe that the violations may bear on the integrity of plan management. It is not intended that *de minimis* violations unrelated to the integrity of the fund or plan management be reported. This exclusion ensures that only serious irregularities are to be reported.

The bill provides a "safe harbor" to protect from liability accountants and plan administrators who report an irregularity, provided that the reports were made in good faith.

Reporting of Auditor Termination: If the administrator terminates the accountant's engagement for auditing services, the administrator must, within five business days of the termination, notify the Secretary of the termination and of the reasons for the termination, and furnish a copy of the notification to the accountant. If the accountant has not received a copy of the notification, or disagrees with the reasons for the termination, the accountant shall notify the Secretary within ten business days after the termination, giving the reasons for the termination.

Civil Penalty: This proposal also amends ERISA to provide that the Secretary may impose a civil penalty of up to $100,000 against any plan administrator who violates any requirement to report information required under this proposal. The penalty also applies to any accountant who knowingly and willfully violates any requirement to report information to the Secretary. The penalty applies separately to each accountant and administrator in any violation of these requirements. For example, if both were involved in one violation, both the accountant and the administrator would be subject to a penalty of up to $100,000 each. Noncompliance with the new reporting requirements could, in egregious situations, also subject plan administrators and accountants to criminal penalties under ERISA. Because a willful violation of the provisions may result in criminal prosecution, it is expected that the Secretary of Labor will consult with the Department of Justice in drafting regulations to the extent appropriate.

It is expected however, that the civil penalty provisions will be utilized primarily to ensure compliance with the new reporting rules, and that implementing regulations would provide for abatement or waiver of penalties in appropriate situations.

The amendments made by this section shall apply with respect to any irregularity or termination of engagement only if the five-day period described in such amendments commences at least 90 days after the date of enactment.

ADDITIONAL REQUIREMENTS FOR QUALIFIED PUBLIC ACCOUNTANTS
(Section 2034)

Current law

ERISA requires that certain plans obtain audits of the financial statements included in their annual reports. This audit is required to be conducted by a "qualified public accountant" as defined by section 103(a)(3)(D). The definition incorporates public accountants certified or licensed by a regulatory authority of a State or certified by the Secretary of Labor.

Reasons for Change

Federal law enforcement agencies, including the Pension and Welfare Benefits Administration and the Inspector General, as well as reviewer determinations made by the General Accounting Office on this issue, have found that current ERISA audits do not consistently meet professional standards. The definition of "qualified public accountant" contained in the statute qualifies accountants solely on the basis of licensing or certification. Accountants in many states need not participate in continuing quality control and education programs to assure the quality of their work remains sufficient to be licensed or that they are qualified to conduct employee benefit plan audits.

There is no external quality control review requirement for qualified public accountants under current law. Except with respect to accountants who practice in States without licensing requirements, ERISA does not grant the Secretary authority to impose additional qualifications or requirements on accountants necessary to protect the integrity of plan assets.

Proposal

This proposal amends ERISA's definition of "qualified public accountant" to include regulatory requirements and qualifications that the Secretary deems necessary to ensure the quality of plan audits. This proposal includes a specific requirement that, to be a qualified public accountant, a person must have in operation an appropriate internal quality control system and have participated in an external quality control review of the accountant's accounting and auditing practices relevant to employee benefit plans within the three-year period prior to engagement to conduct an audit. In addition, the accountant must also have completed, within the two-year period immediately preceding such engagement, at least 80 hours of continuing education or training which contributes to the accountant's professional proficiency, at least 20 hours of which have been completed during the one-year period immediately preceding the engagement and at least 16 hours of which relate to employee benefit plan matters, or has completed such continuing education or training requirements as the Secretary may prescribe in regulations. The external quality control reviews must be performed in accordance with the requirements of the review programs of recognized auditing standard-setting bodies, as determined by the Secretary in regulations.

Any such review must include the review of an appropriate number of plan audits in relation to the scale of the qualified public accountant's auditing practice, but in no event less than one, unless the accountant has conducted no employee plan audits

Except for the Secretary's authority to issue additional regulatory requirements, the provisions of this section are effective with respect to plan years beginning on or after three years from the date of enactment of this Act. This creates a minimum three-year transition period which provides an opportunity for the completion of initial external quality control to be conducted by recognized auditing standard-setting bodies. The Secretary's authority to issue regulations is effective upon enactment, although the regulation would not be effective until the statutory provision became effective.

CLARIFICATION OF FIDUCIARY PENALTIES
(Sections 1502 and 2035)

A. MODIFICATION OF PROHIBITION OF ASSIGNMENT OR ALIENATION

Current Law

ERISA and the Internal Revenue Code generally prohibit the assignment and alienation of pension benefits. As a result of *dicta* in the Supreme Court's opinion in Guildry v. Sheet Metal Workers National Pension Fund, 493 U.S. 365 (1990) that "courts should be loath to announce equitable exceptions to legislative requirements or prohibitions that are unqualified by statutory text", courts have been divided in their interpretation of this prohibition. Some courts have ruled that there is no equitable exception in ERISA for offset of a participant's pension benefit to make a plan whole for losses resulting from a fiduciary breach. Other courts have ruled that nothing in ERISA's prohibition of assigning or alienating pension benefits was intended to limit the remedies under ERISA and that the prohibition should be properly read only to shield participants' interests in pension plans from third-party creditors.

Reason for Change

The Administration believes that, because of the conflicting judicial decisions, this is an area that needs clarification.

Proposal

This proposal clarifies that the provisions of ERISA and the Internal Revenue Code, which prohibit the assignment and alienation of pension benefits, would not be violated when the participant's accrued benefits in the plan are offset against the amount owed to the plan by the participant as a result of a breach of fiduciary duty to the plan or criminality involving the plan. An offset will be treated as a taxable distribution to the participant.

This section applies only to amounts required to be paid under: criminal judgments; civil judgments for violations of the fiduciary responsibility provisions of ERISA; or settlement agreements of such violations with the Secretary of Labor or the PBGC. The participant's spouse retains the right to receive the minimum survivor annuity protection to which the spouse is entitled, unless the spouse consents to the offset or is required to pay an amount to the plan under the judgment or settlement agreement.

B. CIVIL PENALTIES FOR BREACH OF FIDUCIARY RESPONSIBILITY

Current Law

Section 502(l) was added to ERISA by the Omnibus Budget Reconciliation Act of 1989. In its current form, section 502(l) requires the Secretary of Labor to assess a civil penalty against (1) a fiduciary who breaches a fiduciary responsibility under, or commits a violation of, part 4 of Title I of ERISA, or (2) any other person who knowingly participates in such a breach or violation. The penalty is equal to 20 percent of the "applicable recovery amount" that is paid pursuant to a settlement agreement with the Secretary or that a court orders to be paid in a judicial proceeding brought by the Secretary to enforce ERISA's fiduciary responsibility provisions. The Secretary may waive or reduce the penalty only if the Secretary finds in writing that either (1) the fiduciary or other person acted reasonably and in good faith, or (2) it is reasonable to expect that the fiduciary or other person cannot restore all the losses without severe financial hardship unless the waiver or reduction is granted.

Reason for Change

Since its enactment, section 502(l) has not resulted in the collection of significant revenues and has been extremely difficult to administer. The principal problems are due to the mandatory nature of the penalty and the requirement that there be a court order or a settlement agreement. The waiver or reduction provision is very narrow, and affords the Secretary little opportunity to adjust the penalty based on the particular circumstances of a case. Especially in the settlement context, the penalty may have the effect of paying money to the government that would otherwise be available to offset a plan's losses. Moreover, the requirement of a settlement agreement produces difficult questions concerning whether a particular payment was recovered pursuant to a settlement agreement. If the fiduciary or other person repays the losses, but insists that there was no settlement agreement, the Secretary may have a difficult time establishing the existence of a settlement agreement. As a result, the penalty actually creates a disincentive for parties to settle with the Secretary. The existing provision penalizes the fiduciary who settles with the Department and restores a plan's losses, but it imposes no penalty on a similarly situated person who makes no payment or who makes a payment without entering into a settlement with the Department.

Proposal

The proposal removes the current disincentive to settlement and encourage parties to quickly settle claims of violations that the Department brings to their attention. The proposal makes two principal changes to the current statutory scheme of section 502(l). First, section 502(l) is amended to make the assessment of the penalty discretionary with the Secretary of Labor, rather than mandatory. This change will allow the Secretary to refrain from imposing the penalty in certain cases as well as to assess a penalty of less than 20 percent of the applicable recovery amount. Second, it eliminates the requirement of a settlement agreement. The applicable recovery amount would be any amount recovered by a plan or by a participant or beneficiary more than 30 days after the fiduciary's or other person's receipt of a written notice of the violation from the Department of Labor. This 30-day grace period, which the Secretary can extend, would serve as a strong incentive for parties to quickly reach a settlement with the Secretary to avoid imposition of the penalty. Payments made after the grace period, whether they are made pursuant to a settlement agreement, or simply to discourage the Department from bringing a legal action, would be subject to the penalty, as would amounts recovered pursuant to a court order.

The proposal also amends section 502(l) to clarify that the term "applicable recovery amount" includes payments by third parties that are made on behalf of the relevant fiduciary or other person. These changes allow the Department to assess the penalty against all fiduciaries and other persons who are liable for the amount that is recovered, including those who did not actually pay. These changes also prevent avoidance of the penalty by having an unrelated third party pay the recovery amount.

The proposal adds a new provision which is designed to avoid a problem of applying the penalty to certain violations that begin before the effective date of enactment but that continue afterwards, such as violations involving leases, loans and service agreements. Under the current version of section 502(l), there is a need to make complex determinations regarding how much of the applicable recovery amount for such continuing violations should be attributed to the post enactment part of the violation, which is the only part of the violation with respect to which the penalty may be assessed. After giving fiduciaries six months to undo continuing violations without application of the amendments, provision treats all such violations as having begun after the effective date of the amendments for purposes of determining the applicable recovery amount.

Finally, another new provision is added to section 502(l). It expressly provides that, when a penalty is contested, Administrative Law Judges will have the authority to decide both the existence of the underlying violation and the applicable recovery amount.

This section applies to any breach of fiduciary responsibility or other violation of part 4 of Title I of ERISA occurring on or after enactment

TITLE III -- FEDERAL THRIFT SAVINGS PLAN

IMMEDIATE PARTICIPATION IN THE THRIFT SAVINGS PLAN FOR FEDERAL EMPLOYEES
(Section 3001)

Current Law

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for Federal and Postal employees. It offers employees the same type of before-tax savings and tax-deferred investment earnings that many private corporations offer their employees under section 401(k) plans

The TSP contribution rules vary for employees depending on their coverage under the Federal Employees' Retirement System (FERS) or the Civil Service Retirement System (CSRS). FERS employees may contribute up to 10 percent of basic pay each pay period If they make employee contributions, they also receive agency matching contributions according to a statutory schedule Whether they contribute or not, they receive agency automatic contributions equal to 1 percent of their basic pay each pay period

CSRS employees may contribute up to 5 percent of basic pay each pay period but do not receive any agency contributions.

Eligible employees can sign up to contribute to the TSP only during two semi-annual election periods established by law The effect of this and other statutory limitations is that certain waiting periods apply before employees may make employee contributions or receive agency automatic (1 percent) and agency matching contributions

Newly hired employees are first eligible to participate in the second election period after being hired under FERS Thus, these employees must wait from six to twelve months, depending on their date of hire, before they may contribute their own funds or receive agency contributions. Rehired FERS or CSRS employees who were previously eligible to participate in the TSP program become eligible in the first election period following their rehire and, thus, wait up to six months.

Reasons for Change

Allowing workers to begin contributing to the TSP immediately makes it more likely that workers will get into or continue the habit of saving for retirement through payroll deduction. Workers who are not allowed to contribute to the TSP immediately lose valuable tax-savings for the 6 to 12 months they are not allowed to contribute -- amounts that cannot be made up later by larger contributions

Proposal

All waiting periods for employee contributions to the TSP would be eliminated for new hires and rehires. Workers who are hired or rehired would be eligible to contribute immediately. Agency matching and automatic (1 percent) contributions would remain subject to the waiting periods in current law .

SURVIVOR PROTECTION FOR SURVIVING AND FORMER SPOUSES OF FORMER FEDERAL EMPLOYEES

(Section 3002)

Current Law

Surviving spouses of Federal employees and retirees are generally entitled to receive a survivor annuity, and former spouses may also be eligible to receive survivor benefits, if the divorce court determines they should. However, under the Civil Service Retirement System (CSRS -- applicable to most employees hired before 1983), when an employee leaves Federal government employment before being eligible for an immediate annuity, and then dies before becoming eligible for a deferred annuity (at age 62), no survivor annuity can be paid (except to a survivor of a former Member of Congress). This is unlike the Federal Employees' Retirement System (FERS -- applicable to most employees hired since 1983), where a surviving spouse or former spouse of an employee who left Federal government employment with potential eligibility for a deferred annuity can receive a survivor benefit even if the former employee dies before reaching eligibility for the deferred annuity.

Reasons for Change

The lack of survivor protection for surviving spouses and former spouses of former employees who die while eligible for a deferred annuity under CSRS is a significant gap in income protection for a small but important group. The availability of such benefits under FERS (and for spouses of Members of Congress under CSRS) demonstrates the feasibility of providing such income protection.

Proposal

The proposal, like FERS, would provide a benefit for surviving spouses and former spouses of a former employee who died while eligible for a deferred annuity under CSRS. The surviving spouses (and former spouses, if awarded by the divorce decree) would be able to elect to receive either (1) 55 percent of the former employee's deferred annuity, commencing when the employee's deferred annuity would have commenced, had the employee lived, (2) the actuarial equivalent of (1), but commencing at the time of the former employee's death, or (3) a refund of the former employee's retirement contributions.

PAYMENT OF LUMP SUM CREDIT FOR FORMER SPOUSES OF FEDERAL EMPLOYEES
(Section 3003)

Current Law

Under current law, when an employee, former employee, or annuitant dies, any contribution to his or her credit in the Civil Service Retirement and Disability Fund must be paid to whomever the employee or annuitant designated to receive that contribution. If no designation was made, there is a statutory order of precedence beginning with the surviving spouse. There is no provision in law that permits a court order to interfere with these arrangements. If, for instance, an employee agreed in a divorce settlement to designate a former spouse to receive these funds, and later designated another individual, current law would require payment of the funds to the other individual.

Reasons for Change

The contributions on deposit in the Civil Service Retirement and Disability Fund can constitute a significant portion of the marital property, and there is no reason these funds should be beyond the reach of a divorce proceeding or, worse, be subject to being redirected in defiance of a judgment of a divorce court

Proposal

This proposal would establish that the payment of contributions to the employee's credit in the Retirement Fund would be subject to the judgment of a divorce court, in the same way the employee's annuity and survivor benefits are Thus, a proper court order on file with the Office of Personnel Management would supersede any designation of beneficiary by the employee or annuitant.

TITLE IV -- CONFORMING RAILROAD RETIREMENT BENEFITS WITH SOCIAL SECURITY

CONFORMING RAILROAD RETIREMENT BENEFITS WITH SOCIAL SECURITY
(Sections 4001 - 4006)

Current Law

Annuities under the Railroad Retirement Act include a tier 1 benefit, which is generally equal to the benefit that would have been payable under the Social Security Act if all of the employee's service had been covered under the Social Security Act. The cost of these social security equivalent benefits is borne by the financial interchange between the railroad retirement and social security systems. Under the financial interchange, the social security trust funds receive, in effect, the tax revenues from railroad employment equal to the amount that would have been collected under the Federal Insurance Contributions Act, and the railroad retirement trust funds receive from the social security trust funds an amount equal to the benefits that would have been paid under the Social Security Act had the railroad employment been covered under that Act.

Although the railroad retirement trust funds receive funds based on the amount of benefits that would have been paid under the Social Security Act if railroad employment had been covered by that Act, the Railroad Retirement Act does not provide benefits for certain classes of persons who would have received benefits under the Social Security Act. Accordingly, the funds transferred from the social security trust funds exceed the amount of social security equivalent benefits actually paid under the Railroad Retirement Act. The largest group of persons who would receive benefits under the Social Security Act but who do not directly receive benefits under the Railroad Retirement Act are children of living employee beneficiaries. Another sizable group of persons who do not receive benefits under the Railroad Retirement Act includes survivors where a residual lump sum benefit (i.e., a lump sum paid in lieu of future benefits under the Railroad Retirement Act) has been paid.

Reasons for Change

Under current law, the balance in the Social Security Equivalent Account, the account from which railroad retirement social security equivalent benefits are paid, is increasing and the "surplus" in that account will not be used to pay social security equivalent benefits. These funds should be used to pay social security equivalent benefits in the same amounts and to the same persons as would have been the case under the Social Security Act.

Proposal

The difference in entitlement to social security equivalent benefits under the Railroad Retirement Act and to benefits under the Social Security Act would be eliminated. Benefits would be provided to children of living employee annuitants. In addition, the prohibition against payment of survivor benefits where a residual lump sum benefit has been elected and paid would be removed with respect to social security equivalent benefits. The legislation would also conform the payment of divorced spouse benefits under the Railroad Retirement Act to the Social Security Act and would provide a social security equivalent benefit to a spouse of a disabled railroad employee prior to the employee's attainment of age 62 or 60 with 30 years of service.

The proposal would be effective January 1, 1997.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
May 23, 1996

Contact: Michelle Smith
(202) 622-2960

STATEMENT BY TREASURY SECRETARY ROBERT E. RUBIN

"I welcome the agreement reached today in Paris to expand the resources available to the IMF for dealing with financial crises. This is a sound and prudent agreement. It will bring in new countries with the financial capacity to support the monetary system. It will help strengthen the multilateral mechanisms in place to protect US interests in future financial emergencies. The arrangements are expected to be used only in exceptional circumstances and to support lending by the IMF only when borrowers are willing to take strong corrective policy actions."

RR-1094

May 23, 1996

PRESS RELEASE

Mr. Draghi, Director-General of the Italian Treasury and Chairman of the G-10 Deputies, announced today on behalf of the G-10 countries and a number of other countries with the capacity to support the international monetary system that agreement has been reached both on the broad principles and on the key substantive points for new arrangements to increase the resources available to the IMF to deal with international financial emergencies. The new arrangements, which will double the resources now available under the GAB, will be the first and principal recourse in the event of a need to provide supplementary resources to the IMF. The GAB will continue to exist, but the combined amount drawn under the two arrangements will at no time exceed SDR 34 billion. It was agreed that individual country commitments would be based on relative economic strength as measured by actual IMF quotas as a predominant criterion. Countries will participate on an equal footing with rights and responsibilities commensurate with their commitments. Mr. Draghi also noted that a number of details will need to be refined in coming months, with the aim of reaching final agreement by the time of the Fall Annual Meetings of the Bretton Woods Institutions. He also indicated that the new arrangements would have to be approved by the IMF Executive Board as well as by national authorities.

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AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 23, 1996

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $19,301 million of 52-week bills to be issued May 30, 1996 and to mature May 29, 1997 were accepted today (CUSIP: 912794206).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.30%	5.60%	94.641
High	5.32%	5.62%	94.621
Average	5.32%	5.62%	94.621

Tenders at the high discount rate were allotted 66%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$55,637,829	$19,301,289
Type		
Competitive	$49,187,375	$12,850,835
Noncompetitive	1,020,454	1,020,454
Subtotal, Public	$50,207,829	$13,871,289
Federal Reserve	5,150,000	5,150,000
Foreign Official Institutions	280,000	280,000
TOTALS	$55,637,829	$19,301,289

5.31 -- 94.631

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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INTERNATIONAL FINANCIAL INSTITUTIONS AND THE UNITED STATES ECONOMIC STRATEGY TOWARDS LOW INCOME COUNTRIES

Remarks by
Lawrence H. Summers
Deputy Secretary of the Treasury
Professional Banker's Association
Washington, DC
May 24, 1996

Good afternoon. It is a pleasure to be here among a group which has played such a critical role in fostering global development. I am happy to see so many friends and honored to be in the presence of so much collective knowledge about international development.

Today I would like to talk about a subject of great concern: the challenge posed by low income countries and the role of the United States and the International Financial Institutions in meeting that challenge.

Let me be clear at the outset: President Clinton and his entire Administration recognize that this country has everything to gain, and little to lose, from continuing its strategy of international leadership. That is why, for example, the US made the review of the IFIs a central priority at the meeting of the G-7 in Halifax. The active support of this Administration for the international financial institutions is a crucial component of practicing that leadership.

As I have often said, the international financial institutions are to the post-Cold War world what world security organizations were to the pre-Cold War world -- institutions in which nations come together not just to talk, but to act on their central priorities.

President Clinton made very clear the strength of his commitment to your institutions when he said in his speech at last Fall's annual meetings "that the United States is committed to helping the poorest nations of the World help themselves through our partnership in IDA. It serves our fundamental values, as well as our economic interests, giving people a chance to succeed. It's a top priority because it's the right thing to do".

RR-1096

Let me be very frank: upholding the tradition of American leadership in finance, in trade, in development in coming years is not going to be easy. Those of us in the broad center -- Democrats and Republicans alike -- have an obligation to educate an increasingly restive public about the stake that we all have in this leadership. Increasingly, our ability to lead internationally will depend on our ability to convince, not just traditional elites, but also the broad public, of the benefits that it brings. Nobody "focus grouped" the Marshall Plan, but the world of today is different and the approach that we take to explain and defend U.S. leadership will have to be different as well.

It is vital that we spread the message of our stake in the success of nations overseas.

- When the history of our era is written, I am convinced that the end of the Cold War will be the second most important event recorded. The most important event will be that 3 billion people boarded the escalator to modernity, a change comparable to the Renaissance or the Industrial Revolution.

- Already, 40% of America's trade is with developing countries which sustain millions of U.S. jobs.

- Yet while we stand to gain from prosperity abroad, we also stand to lose from problems that we fail to address.

- Poverty contributes to unrest and warfare which can easily spread across borders. It is no coincidence that Haiti, before its recent problems was the poorest country in the Western Hemisphere.

- Environmental problems do not halt at the border. China, for example, has become the largest global producer of gases.

- Diseases that break out in one place soon spread to others. One in 150 people will have AIDS in the year 2000, including 5 million children.

- There is no hiding from what happens overseas.

From this perspective, I am deeply troubled by the pattern of legislative action on American contributions to the IFIs:

- It is wrong that the richest country in the world cannot meet its obligations and that arrears to the IFIs now total $1.5 billion.

- It is wrong that the IDA-10 agreement, entered into by President Bush with strong bipartisan support, cannot receive full funding today.

I can assure you that my colleagues and I are well aware of the demoralizing effect that the inadequate financial support of the world's richest country has had on the international financial institutions. We are determined, now and in the future, to secure a better outcome.

One way to improve this outcome is to successfully communicate the links between support for these institutions relates and our national security. Our contributions to the IFIs, as well as other accounts in our international affairs budget, should be viewed as preventive security measures. Ultimately, less blood will be shed in a stable world.

With the end of the Cold War, the United States has seen its military spending fall by about $120 billion. If we took only one percent of that amount, we could pay our arrearage.

President Bush was right about many things, but he was wrong when he said we have more will than wallet. In fact, we have more wallet than will.

It should be very clear by now to all my foreign friends in this room how disturbed I am by the inadequacy of the American contribution in recent years. But I would say to my friends, as serious as this problem is, it must be seen in a broad perspective.

The United States has nothing to apologize for in terms of our substantive contributions to a more peaceful and prosperous world. Our contribution to the preservation of global security, to the maintenance of open markets for the good of all countries, and to the creation of international institutions, are unmatched in scale. From the Marshall Plan, to last year's Mexico crisis and through a host of other events in between, the US has done its part. I hope and trust that as we work through this difficult period we will not see the unravelling of traditional international cooperation. Efforts to exclude the United States from procurement opportunities, for example, only compound the already tough battle that we in this Administration are fighting at home.

Let me turn now to the question posed in my introduction -- what should be the strategy of the international financial institutions towards low-income countries.

Private capital is doing more and more of what needs to be done for the upper tier of developing countries. Who would have thought a year ago when the Mexican crisis was so salient in people's minds that total flows of capital to developing countries would be what they were last year, a healthy $167 billion. But many countries still lack access to capital. Only twelve nations absorb 80 percent of the private capital flows to all the developing countries.

To help those countries most in need of assistance, there are three aspects of multilateral development bank policy towards low-income countries that I would like to highlight today:

- First, we must use scarce resources as effectively as possible;

- Second, we must deal realistically with past failures and excessive debt; and

- Third we must acknowledge the importance of reconstruction in development finance.

Using Scarce Resources Effectively

First, let me be very honest. Institutions must do everything they can to allocate the resources they possess to run their development efforts more effectively. That means hiring more staff and investing more money when there is a direct pay off. But it also means practicing the kind of austerity backed with targets that many of those in this room preach so well.

- Frankly, I am troubled by the frequency with which I see old friends travelling well in front of me when I fly coach.

Using resources effectively also means maximizing the financial efficiency of World Bank projects and passing the benefits on to borrowers, especially to concessional borrowers. Despite some important gains in development over the last half century, there are some troubling facts that make it hard not to question this record. Consider, for example, that the average African has received four times as much foreign aid as the average Asian. Yet:

- Two decades ago, Nigeria was richer and less dependent on commodity exports than Indonesia; Ghana was richer and had less debt than Thailand.

- Today, there are fewer functioning roads and railways in Sub-Saharan Africa today than in 1960.

- Today, in parts of Africa, the odds of a child dying before the age of five and entering secondary school are about equal.

Startling facts of this kind have generated some valuable soul-searching about the world's development institutions and, I think, some extremely important lessons for going forward. Thanks to the efforts of a task force that spent a year considering how the IFIs can perform better, we have several strong recommendations that each institution should take to heart. These include:

- maintaining a focus on poverty alleviation, which means looking at the composition of public expenditure to ensure that a recipient country is willing to put a premium on books over bombs. We need to do more, more quickly for countries willing to help themselves and less, less often for those who are not.

- improving collaboration among the IFIs, an area where I believe President Wolfensohn and Michel Camdessus have already demonstrated a strong commitment

- measuring results, which means developing clear, specific and monitorable performance indicators; and

- supporting the creation of effective governments and a strong civil society, to curb corruption and promote a participatory approach to development.

While the importance of getting countries to adopt the right policies is key, it is not enough for us to say that failure has resulted because our policies have not been tried. And it is not enough to keep preaching these policies over and over. We need to focus on making adjustment programs as effective as possible in order to make them politically acceptable. That means focusing on the gains, rather than the pain, they are going to produce. And, to ensure these gains are realized, it is crucial to understand that austerity is no substitute for adjustment: the quality of deficit reduction is just as important as the quantity. Similarly, it is not enough to aim for an economic environment that is enabling -- it must be inviting as well.

Loans That Have Gone Bad

Concessional lending is a powerful development tool. But it alone is not sufficient. And while the right policies are vital, they alone are not,enough. We must also help countries deal with past loans that have gone bad and are beyond the capacity of governments to service. One of the best ways we can do this is through a coordinated strategy of debt reduction.

Consider the case of Uganda.

o One of the world's poorest, most highly indebted countries, Uganda has faithfully implemented a variety of reforms and has posted strong economic performance in recent years.

o Yet, even after receiving Naples Terms and posting a good track record, Uganda's debt burden remains unsustainable -- due in part to its heavy debt to multilateral creditors.

For countries like Uganda, action by the IFIs will be an integral part of achieving debt sustainability and sustained economic growth. At the Halifax Summit in July 1995, the G-7 heads of government encouraged the IMF and the World Bank to develop a comprehensive approach to address the multilateral debt problems of the poorest countries.

For too long, both we and the multilateral institutions have focused on near term financing of balance of payments needs, and have ignored the longer-term impact on future debt burdens.

Without a comprehensive effort to reduce debt to sustainable levels, the debt problems of the poorest countries will continue to monopolize both monetary and human resources, to undermine initiative, and to discourage investors.

During the Bank and Fund Executive Board discussions of this issue, the U.S. proposed some key principles to help guide work on developing a specific comprehensive approach:

- First, our objective should be to attain -- and maintain -- debt sustainability for these countries through a combination of debt relief and management of new debt.
- Second, eligible countries should receive debt reduction only in conjunction with a strong, multi-year program of reform.
- Third, there must be clarity at the outset about the extent of debt relief and the time period for its provision.
- Fourth, multilateral action should complement and be coordinated with that of Paris Club creditors. For those countries where Naples Terms is insufficient to assure debt sustainability, we must craft a course that coordinates multilateral and Paris Club action.
- And, finally, multilateral institutions should depend primarily on their own resources for the debt relief they provide. We cannot expect bilateral contributions to be a significant source of funding for this purpose.

The Bank and Fund have proposed a framework generally in keeping with these principles, and I want to salute President Wolfensohn and Michel Camdessus for the leadership they have shown in moving this forward. We endorse the World Bank's trust fund proposal and eagerly await its elaboration, as well as selective use of IDA grants where appropriate.

The IMF must also play an active role through strong conditionality, increased loans where appropriate, and deeper concessionality on ESAF loans for these countries. Proposals to invest a portion of the IMF's gold and to direct the income earned to the ESAF merit our close consideration.

We all look forward to more detailed proposals from the Bank and the Fund on the steps that they are considering taking, so that we can advance this effort further at the Lyon Summit.

A New Focus on Reconstruction

In directing resources selectively, we can not neglect one special category of countries: those in dire need of help because of war, famine, or some special circumstances.

Let's remember what IBRD stands for: the International Bank for Reconstruction and Development. And reconstruction, which has not been central since the Bank's early days, must again be a focus. There are three places in the world that desperately need this kind of support:

- in Bosnia, where we are working with our post-war allies and the IFIs to develop a comprehensive package of international financial support including debt reduction and large scale technical assistance;

- in Haiti where we are working to develop an economic reform program which can be supported by the IFIs;

- in the Middle East where we are working with other donors, Israel, the Palestinians, and the IFIs to advance the peace process by promoting economic stability.

We must appreciate that reconstruction situations are different, and pose special challenges. In one respect, they may be easier if it is a matter of restoring a country to previously attained standards of living. However, circumstances where military conflict is still a threat, institutional capacity is virtually non-existent, and trust, a key fabric of economic life, is absent, present special challenges:

- we must be able to deal with poor absorption capacity;
- we must be able to produce tangible results quickly;
- our governments and the IFIs must work closely together and be willing to cut through red tape to expedite delivery.

Let me conclude where I began. The world's economy is getting smaller. East and West have come together. South and North, though still separated by a gulf in income are closer together than ever before. Our stake in the progress of the poorest countries is greater than ever.

The International Financial Institutions are our most potent and efficient tool for influencing what will happen. They demand, deserve, and I believe will ultimately receive, our continued and resolute support.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
May 24, 1996

Contact: Michelle Smith
(202) 622-2960

STATEMENT BY TREASURY SECRETARY ROBERT E. RUBIN

The House Appropriations Subcommittee on Foreign Operations on Wednesday marked up the Administration's FY 1997 International Affairs budget request, including U.S. contributions to the World Bank and other International Financial Institutions (IFIs) and debt programs. I am deeply concerned regarding the subcommittee mark which would impose reductions of 46 percent in these programs from the President's request. These reductions, if ultimately enacted, would threaten substantial American economic and security interests in the post-Cold War world.

The IFIs play a crucial role in fostering political stability in key regions of the world, and with it, our own national security. They expand the opportunities for trade and investment that anchor our prosperity as well as advance our most important humanitarian goals, by encouraging the economic and social progress of millions of the world's citizens.

Last year Congress reduced U.S. funding to the IFIs by 38 percent from FY95 levels. The House Subcommittee now proposes a further cut of 31 percent cut from FY96 numbers.

The Administration is fully committed to strong U.S. participation in and leadership of the international financial system. We will work closely with the Congress in the months ahead to maintain support for these key institutions, and to protect important long-term national interests.

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FOR IMMEDIATE RELEASE
May 28, 1996

Contact: Jon Murchinson
(202) 622-2960

UPDATED SCHEDULE FOR MEETINGS ON INFLATION-PROTECTION SECURITIES

The following is an updated schedule for the Treasury Department's information meetings and press roundtables on plans to issue inflation-protection securities. Press wishing to attend must call the appropriate contact listed for each city. All times are local and subject to change.

DATE AND TIME	EVENT AND LOCATION	PRESS CONTACT
May 29 10 a.m.	Investor Meeting Treasury Department 1500 Pennsylvania Avenue, NW Washington, D.C.	Jon Murchinson (202) 622-2960
May 30 2 p.m.	Investor Meeting Federal Reserve Bank 33 Liberty Street New York, N.Y.	Bart Sotnick (212) 720-6143
June 4 10 a.m.	Investor Meeting Federal Reserve Bank 600 Atlantic Avenue Boston, Massachusetts	Thomas L. Lavelle (617) 973-3647
June 5 10 a.m.	Investor Meeting Federal Reserve Bank 230 South LaSalle Street Chicago, Illinois	Suzanne Heffner (312) 322-5108

-MORE-

RR-1098

DATE AND TIME	EVENT AND LOCATION	PRESS CONTACT
June 5 2:30 p.m.	Press Roundtable U.S. Embassy 24 Grosvenor Square London, W1A	Dennis Wolf (011) 441714995261
June 6 2:30 p.m.	Investor Meeting U.S. Embassy 24 Grosvenor Square London, W1A	Dennis Wolf (011) 441714995261
June 6 9:30 a.m.	Investor Meeting Federal Reserve Bank 101 Market Street San Francisco, California	Sandra Conlan (415) 974-3231
June 10 Time TBD	Press Roundtable U.S. Embassy 10-5 Akasaka 1-chome Minato-ku, Tokyo 107	Emi Yamauchi (011) 81332245271

Investors wishing to attend should call the Bureau of Public Debt, (202) 219-3350, or the U.S. Treasury Attache in London, (011) 441714088069, or Tokyo, (011) 81332245486. To receive the Advance Notice of Proposed Rulemaking from Treasury's automated fax system call (202) 622-2040 and request document 1080.

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FOR IMMEDIATE RELEASE
May 28, 1996

Contact: Darren McKinney
(202) 622-2960

POLICY ADDS FLEXIBILITY FOR STATE, LOCAL LAW ENFORCEMENT

Treasury Secretary Robert Rubin Tuesday ordered a change in policy that will help state and local law enforcement pay for additional officers.

Rubin changed the equitable sharing policy that determines how local, state and federal law enforcement agencies may utilize their share of property and assets acquired by criminals through illegal activity.

Now, state and local authorities will have the option of using their shares to pay for officer overtime as well as the salaries of officers hired to replace other officers assigned to federal task forces, some temporary officers, and special duty officers like those assigned to the Drug Awareness and Resistance Education program (DARE). The new policy also will allow expenditures for the Community Oriented Policing Services (COPS) program established by the 1994 Crime Bill and designed to improve police and community relations by assigning more officers to neighborhood foot patrols.

"This is common sense government that further improves cooperation between local, state and federal authorities," said Rubin. "State and local law enforcement must have as much flexibility as possible to do the difficult and important work they do within their jurisdictions."

Rubin said this change came about in part because of the interest and support of Senators Dianne Feinstein and Barbara Boxer, Congressman Howard Berman, Congresswoman Jane Harman and Los Angeles Mayor Richard Riordan.

The revised policy will take effect immediately.

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RR-1099

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 28, 1996

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $14,104 million of 13-week bills to be issued May 30, 1996 and to mature August 29, 1996 were accepted today (CUSIP: 9127943E2).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.02%	5.16%	98.731
High	5.03%	5.16%	98.729
Average	5.03%	5.16%	98.729

$2,510,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 40%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$60,395,729	$14,104,092
Type		
Competitive	$55,233,855	$8,942,218
Noncompetitive	1,341,694	1,341,694
Subtotal, Public	$56,575,549	$10,283,912
Federal Reserve	3,635,180	3,635,180
Foreign Official Institutions	185,000	185,000
TOTALS	$60,395,729	$14,104,092

4.96 -- 98.746 5.00 -- 98.736

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

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May 28, 1996

CONTACT: Office of Financin
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $14,070 million of 26-week bills to be issued May 30, 1996 and to mature November 29, 1996 were accepted today (CUSIP: 9127943Q5).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.11%	5.32%	97.402
High	5.14%	5.35%	97.387
Average	5.14%	5.35%	97.387

Tenders at the high discount rate were allotted 18%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$54,673,288	$14,069,991
Type		
Competitive	$46,841,990	$6,238,693
Noncompetitive	1,113,698	1,113,698
Subtotal, Public	$47,955,688	$7,352,391
Federal Reserve	3,700,000	3,700,000
Foreign Official Institutions	3,017,600	3,017,600
TOTALS	$54,673,288	$14,069,991

5.12 - 97.397   5.13 - 97.392

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Embargoed until 2:30 P.M.
May 28, 1996

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $29,000 million, to be issued June 6, 1995. This offering will result in a paydown for the Treasury of about $300 million, as the maturing weekly bills are outstanding in the amount of $29,296 million.

Federal Reserve Banks hold $6,803 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $4,171 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

RR-1102

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JUNE 6, 1996

May 28, 1996

Offering Amount	$14,500 million	$14,500 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 3F 9	912794 3R 3
Auction date	June 3, 1996	June 3, 1996
Issue date	June 6, 1996	June 6, 1996
Maturity date	September 5, 1996	December 5, 1996
Original issue date	March 7, 1996	June 6, 1996
Currently outstanding	$15,392 million	- - -
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:	
Noncompetitive bids	Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids
Competitive bids	(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%. (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater. (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.
Maximum Recognized Bid at a Single Yield	35% of public offering
Maximum Award	35% of public offering
Receipt of Tenders:	
Noncompetitive tenders	Prior to 12:00 noon Eastern Daylight Saving time on auction day
Competitive tenders	Prior to 1:00 p.m. Eastern Daylight Saving time on auction day
Payment Terms	Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

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Embargoed Until 2:30 P.M.
May 28, 1996

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION CASH MANAGEMENT BILLS

The Treasury will auction approximately $7,000 million of 10-day and $23,000 million of 15-day Treasury cash management bills to be issued June 3, 1996. The 10-day and 15-day bill auctions will be held on Thursday, May 30, 1996, with noncompetitive and competitive closing times of 11:00 a.m. and 11:30 a.m. Eastern Daylight Saving time, respectively.

Competitive and noncompetitive tenders will be received at all Federal Reserve Banks and Branches. Tenders will not be accepted for bills to be maintained on the book-entry records of the Department of the Treasury (TREASURY DIRECT). Tenders will not be received at the Bureau of the Public Debt, Washington, D.C.

Additional amounts of the bills may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new securities are given in the attached offering highlights.

oOo

Attachment

RR-1103

HIGHLIGHTS OF TREASURY OFFERINGS OF CASH MANAGEMENT BILLS TO BE ISSUED JUNE 3, 1996

May 28, 1996

Offering Amount	$7,000 million	$23,000 million
Description of Offering:		
Term and type of security	10-day bill	15-day bill
CUSIP number	912794 Z3 1	912794 6V 1
Auction date	May 30, 1996	May 30, 1996
Issue date	June 3, 1996	June 3, 1996
Maturity date	June 13, 1996	June 18, 1996
Original issue date	December 14, 1995	June 3, 1996
Currently outstanding	$26,861 million	- - -
Minimum bid amount	$10,000	$10,000
Multiples	$1,000	$1,000
Minimum to hold amount	$10,000	$10,000
Multiples to hold	$1,000	$1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids

Competitive bids . . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . Prior to 11:00 a.m. Eastern Daylight Saving time on auction day

Competitive tenders . . . . Prior to 11:30 a.m. Eastern Daylight Saving time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 29, 1996

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $18,751 million of 2-year notes, Series AF-1998, to be issued May 31, 1996 and to mature May 31, 1998 were accepted today (CUSIP: 912827X98).

The interest rate on the notes will be 6%. All competitive tenders at yields lower than 6.053% were accepted in full. Tenders at 6.053% were allotted 74%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 6.053%, with an equivalent price of 99.902. The median yield was 6.035%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 5.990%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$44,267,423	$18,750,923

The $18,751 million of accepted tenders includes $1,546 million of noncompetitive tenders and $17,205 million of competitive tenders from the public.

In addition, $1,720 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $596 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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The Benefits of Inflation-Protection Securities
Remarks by
Lawrence H. Summers
Deputy Secretary of the Treasury
Federal Reserve Bank of New York
New York, NY
May 30, 1996

I am happy to be here today to talk about the Treasury's plans to issue inflation-protection securities. The introduction of inflation protection securities represents the most significant innovation in US debt management policy in several decades. So far we have been very pleased with the response since Secretary Rubin announced our intention to issue these securities several weeks ago. But we have important design work to do before the first securities can be issued. This meeting is an important stage in our process of consultation with the investment community.

The idea of inflation protection securities is not a new one. In fact the famous economist Irving Fisher, writing in 1913, described notes indexed to the price of specified amounts of corn, beef, wool and leather that were engraved by Paul Revere and issued by the State of Massachusetts in 1780. Over the last 15 years, the governments of the United Kingdom, Canada, Australia, New Zealand Sweden have all embarked on programs of indexed bond issuance. And a wide variety of American economists of all political stripes including Nobel laureates Milton Friedman and James Tobin have in recent years called for indexed bonds.

Our decision to issue inflation-protection securities represents the culmination of several years of study initiated soon after President Clinton came into office. We are convinced that indexed bonds have the potential to help American savers, to reduce the government's cost of borrowing, to support sound macroeconomic policy and to improve the functioning of our capital markets. While inflation-protection securities would represent an important financial innovation, we believe that the present moment is particularly propitious because of the increasing need to help American families save and because of the increasing evidence that inflation has been brought under control.

RR-1105

This afternoon I want to briefly consider the various advantages of inflation protected debt. Along the way, I will also try to respond to some of the concerns that have been raised about our plans.

To be clear at the outset, by inflation protection securities, I refer to securities whose coupons and/or principal is tied to a measure of overall prices in such a way that the security's real return is not affected by the rate of inflation. As my colleagues will suggest, there are a number of ways in which this can be done., and it will be important to find the ways which best meet the needs of potential purchasers and marketers of these securities. I will concentrate in my remarks on the generic benefits that come from having a market for inflation protection securities.

How Inflation-Protection Securities Benefit Savers

Let me first examine how these new instruments can benefit American savers..

Our economy has changed profoundly over the last generation. As longer life expectancies have led to longer periods of retirement, as the cost of sending kids to college has risen and as accelerating economic change has made dislocation a new possibility, savings has become more important for American families. For a typical American who enters the labor force at age 22 and retires at age 62, the period of retirement is likely to be nearly as long as the period of working life. The issue of saving is becoming especially pressing as the baby boom generation matures--this year will be the first in which it is eligible to join the AARP. Less than half of Americans workers have pensions.

What all savers want, whether they are saving for their retirement, hope to send their kids to college or want to prepare for some other contingency is to insure sufficient purchasing power at some point in the future. Given uncertainty about inflation and volatile financial returns achieving assured future purchasing power is currently not possible.

- The strength of financial markets in recent years should not cause us to forget the fluctuations in returns that can occur even over quite long periods of time.
    - For example, an investor in 10 year bonds bought in 1972, earned over the succeeding ten year period a real return of negative 2.52 percent.
    - An investor who starting in 1970 rolled over three month Treasury bills earned a ten year real return of negative 0.89 percent.
    - And an investor who purchased the S&P500 index in 1965, earned dividend inclusive real return of negative 3.67 percent over the succeeding decade.
- Each of these periods was quite extraordinary, but they make an important point. Ordinary investors do not have available to them an asset that provides protection against inflation.

Long term, inflation-protection securities will for the first time provide savers with an inflation protected long term return. This is especially important at a time when more and more Americans are providing directly for their retirement with their own private saving through IRA's, Keogh plans, 401k plans and defined contribution pension plans. Indexed bonds are ideal candidates for inclusion in such portfolios.

Of course any decision about purchasing inflation protection securities needs to be made in the context of an overall portfolio strategy. Many investors would not and should not choose to invest all their assets in bonds--nominal or indexed--because they desire to accept more risk in order to earn higher expected returns. The crucial point is that whatever the fraction of a portfolio an investor desires to invest safely for the long term, indexed bonds represent a safer asset than any others now available. As Sanford Bernstein has recently noted by making the safe part of a portfolio safer, indexed bonds can actually promote investments in stocks or other risky assets.

I stress the long term because inflation protection securities would be subject to near term price risk as the real interest rate fluctuated. But even for investors concerned only with the short-run, there is a case for holding indexed bonds as part of a portfolio. Experience suggests that indexed bond returns have very different correlation properties than stocks or nominal bonds and so are attractive as a diversification tool.

I have stressed the benefits of inflation protection securities for individuals and for intermediaries managing individual accounts. They should also be attractive to institutions. Many non-profit institutions that spend out of endowments have as their goal maintaining a constant stream of purchasing power. Providers of defined benefit pension funds need to hedge against the risk that inflation will raise the final salaries and hence the pension benefits of their beneficiaries. And inflation protection securities can provide as basis for pension funds to provide their beneficiaries with constant purchasing power annuities that escalate with inflation just as Social Security does.

In sum, the introduction of inflation protection securities will help secure the saving of American families. It should also serve to encourage more saving--a crucial national priority since only through more saving can we have more American owned capital in America, and a crucial personal priority at a time when it is becoming ever more important for American families to provide for their own economic security.

Reducing Government Borrowing Costs

Let me turn now to another benefit that inflation protection securities offer. They have the potential to reduce both the level and variability of real government borrowing costs.

It is important to recognize, that inflation-indexed bonds remove risk from private investors without causing the government to assume extra risk.

Much of the revenue stream consisting of taxes and fees, is closely matched to the level of prices. If prices rise, then revenues rise as well and it is the revenue base on which government ultimately depends to meet its debt obligations. The burden of nominal fixed rate debt relative to the government's capacity to bear it will vary with inflation--declining if inflation is unexpectedly high, and rising if it is unexpectedly low. Inflation protection securities remove this source of uncertainty and hence in a real sense reduce government risk.

At the same time, because inflation protection securities remove the risk of inflation, investors will not demand the same risk premium on them as they do on conventional bonds. This will be especially true of the most inflation averse or pessimistic investors--the group that is likely to gravitate towards inflation protection securities.

To put the point differently, by selling inflation insurance the government can reduce the expected cost of financing its debt. This is not just a theoretical possibility. Careful econometric studies have shown that the risk premium on long term nominal US bonds due to uncertain inflation may well be as high as 50 to 100 basis points. Similarly, a substantial body of work at the Bank of England has suggested that inflation protection securities are in an expected value sense 50 or more basis points cheaper as a source of finance than conventional debt instruments. Of course, because inflation fell much more rapidly than the market anticipated following the United Kingdom's issuance of indexed bonds, the realized cost savings were on some issues as much as 500 basis points. The economic environment changes continually. While I see good reason to expect cost savings for the United States as well, quantitative estimates would be premature.

The basic point here that inflation protection securities reduce expected costs by eliminating the risk premium is illustrated by considering UK and Canadian securities. In the UK right now, some long term indexed bonds carry a yield of 3.84 percent, 443 basis points less than the yield on equivalent nominal securities. This is considerably greater than most long term inflation expectations. Consensus Economics for example has a British 10 year average inflation expectation of 3.25 percent. Similarly, in Canada the spread between comparable nominal and indexed yields is 3.27, significantly above the Consensus Economics long term inflation expectation of 1.88 percent.

I am convinced that the avoidance of the need to pay an inflation risk premium would be the dominant impact of the issuance of inflation protection securities on government borrowing costs.

There are to be sure concerns that diversifying the mix of instruments used by the government in funding its obligations will reduce liquidity which will in turn translate into higher borrowing costs. I regard as fanciful the suggestion made by a few commentators that the modest issuance of indexed securities will dry up liquidity to any significant degree in the over three trillion dollar market for nominal government bonds.

A more serious but in my view also overblown concern is the possibility that particularly in the beginning the inflation protection security market will lack liquidity. This will not be serious for the many purchasers of these securities who choose to hold them to maturity. Additionally, the entrance of the US Treasury into this market is expected to broaden interest in these securities and improve liquidity over time. Finally, even if these new securities are not as liquid as our more established securities, they are likely to be substantially more liquid than the typical corporate or municipal bond which is so widely held by individual and institutional investors. I can assure you that we plan to manage our program of issuance carefully, credibly and for the long term so as to assure that our securities have the most liquid possible markets.

Before leaving the subject of the impact of inflation protection securities on government borrowing costs, let me comment on the fear expressed by a number of journalists that inflation protection securities impose a costly contingent liability for future inflation on the government. As I have already noted this argument ignores the fact that inflation protection securities improve the match between the government's revenue stream and its debt obligations. Furthermore, government already runs the risk of any inflation-induced increase in short term interest rates. Right now one-third of Federal debt roles over every year. Short-term obligations which must be rolled over and are therefore already subject to inflation and interest rate risk.

The Effect of Inflation Protection Securities on Inflation

It is an empirical fact that in the industrial countries where index bonds have been introduced, inflation has fallen rather than risen. Comparing periods before the issuance of inflation protection securities with a comparable period subsequent to their issuance, the rate of inflation fell by about 6 percentage points in the United Kingdom. 3 percentage points in Canada, 5 percentage points in Australia and one and one half percentage points in Sweden.

In large part, the consistent tendency of inflation to fall reflects the fact that as in the United States today, governments issue inflation protection securities when they are confident that inflation is under control. There are also at least two reasons to believe that inflation protection securities contribute to bringing inflation down and keeping it down.

First, inflation protection securities reduce government incentives to inflate. They create a dynamic whereby increases in inflation will translate directly into increases in the budget deficit and where it is impossible to inflate away at least a portion of outstanding debt. They also enable government to signal its commitment to disinflation.

Second, inflation protection securities also create natural market-based measures of inflation expectations. Significant movements in the spread between real and nominal yields will serve as an important proxy for general expectations of inflation.

Indeed, real and nominal yields and spread between them are used as monetary policy indicators in the United Kingdom. Of course, there will be many factors pushing yields around including changing risk preemie these spreads won't be totally accurate gages of inflation or even of inflationary sentiment.

However, I share Chairman Greenspan's view that inflation protection securities will provide important information that will contribute to more accurate conduct of monetary policy. If one considers the tremendous stake that we as a nation have in avoiding increases in inflation or in avoiding any needless sacrifices in output from false inflationary indications, then even a small increase in the accuracy of monetary policy would yield large benefits.

I have, of course, heard the argument made by some that indexation could prove to be a self fulfilling prophecy, that indexing would weaken political resolve to fight inflation.

This has not happened in England, Canada or Australia and I think the argument should be subjected to rational analysis. Certainly, a rational government planning to inflate its currency would do the opposite of issuing index bonds. Rather, it would borrow nominally for as long a time frame as possible.

There is one other argument sometimes made that inflation protection securities would create a political constituency in favor of inflation, or at least would erode political pressure for disinflation. The experience of disinflation in each of the countries that issued inflation protection securities following their issuance runs counter to this argument.

Moreover, the argument 's premise that inflation protection securities would have a significant impact on public attitudes towards inflation is doubtful. There is currently over 5 trillion dollars in nominal bonds outstanding as well as countless other financial assets whose value is threatened by inflation. There are as well, tens of millions of Americans who live on fixed nominal pensions. Inflation is widely and rightly seen as robbing workers' purchasing power.

These anti-inflation constituencies would seem to likely to dominate the political debate regardless of what position is taken by a small fraction of government bondholders whose view might be affected by their ownership of inflation protection securities.

On balance, my judgment is that the issuance of inflation protection securities will probably not have a very large effect one way or the other. Any effect it does have is likely to work to reduce inflation.

Just as those who sell life insurance, hope for the health of their customers and those who sell fire insurance hope that their customers will not play with matches, those who sell inflation insurance will do everything they can to reduce inflation.

The American Capital Markets

Finally, I would like to comment on how these new securities could over time improve the functioning of the American capital markets and provide impetus to significant and profitable financial innovation. Beyond, their basic role in individual and institutional portfolios, I have heard the following intriguing suggestions since Secretary Rubin announced our intention to issue inflation protection securities:

--Inflation protection securities would be ideal for infrastructure finance where the revenue stream is likely to rise with overall prices. Think of a toll road or an electric utility.

--Inflation protection securities could provide a backing for inflation linked mortgages. Because such mortgages would involve a constant real but rising nominal payment, they would tend to make housing more affordable for young families.

--Inflation protection securities could be stripped to provide on the one hand a constant real annuity over the life of the security such as might be ideal for retirees, and on the other a zero coupon security such as might be ideal for those planning to retire or to meet a fixed commitment such as college education.

--Inflation protection securities could be combined with stock market investments or options so as to create securities that guaranteed maintenance of purchasing power but also provided an opportunity to share in positive returns earned on the stock market.

--Inflation protection securities could be used to hedge or take positions on movements in real exchange rates which have an important impact on companies involved in international trade. The presentation you are going to receive will cover many important issues including the index we ultimately use and the lengths of maturity we choose.

Conclusions

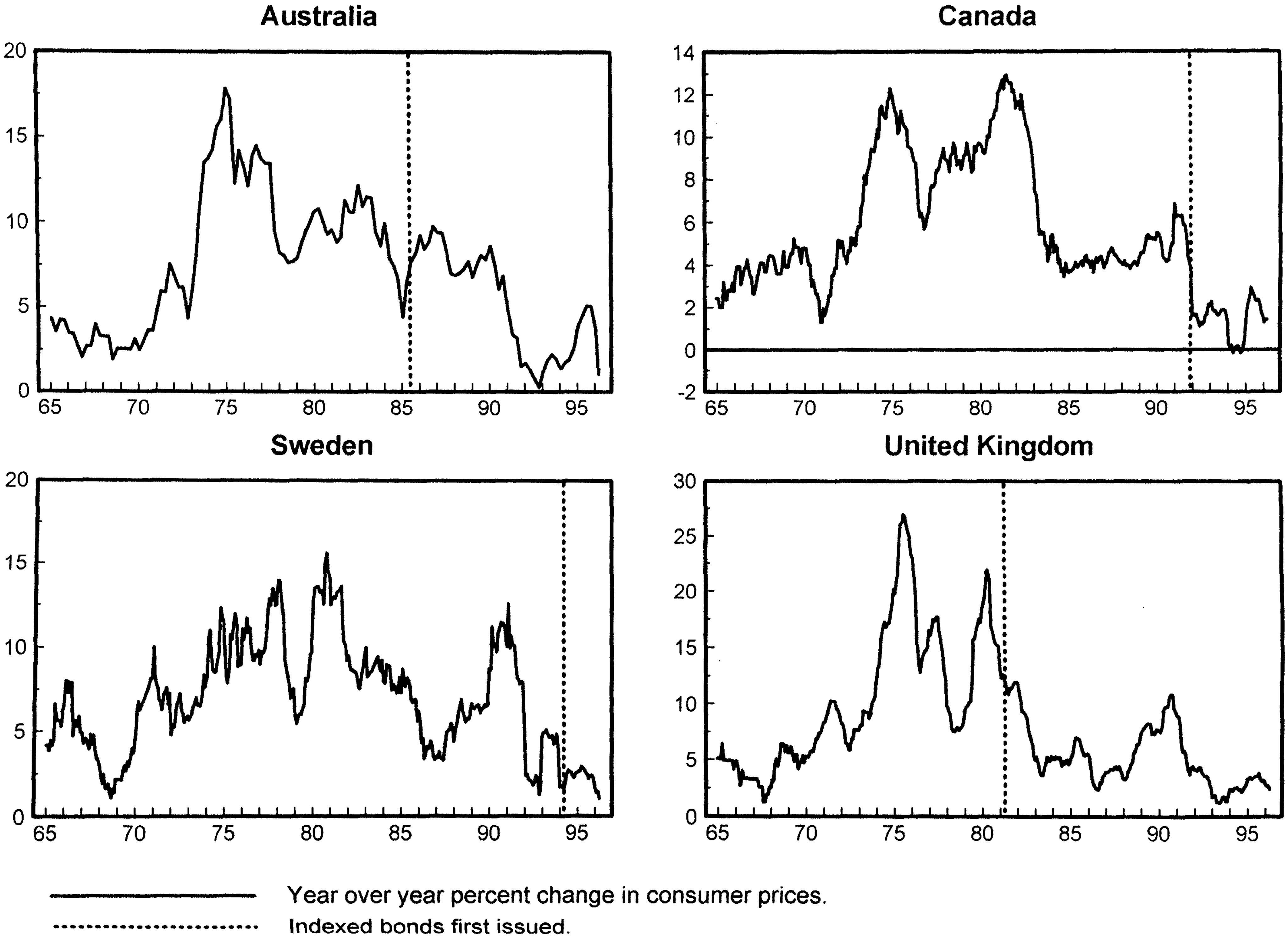
Inflation protection securities, I have argued will help savers. reduce costs, reduce inflationary pressures and promote financial innovation. It is doubtful that it would be possible to reap these gains without Federal government action.

Your input will be critical to the success of these new financial instruments.

History has shown that it often takes longer than expected for financial innovation to take hold but that a successful innovation often spreads far faster than ever expected.

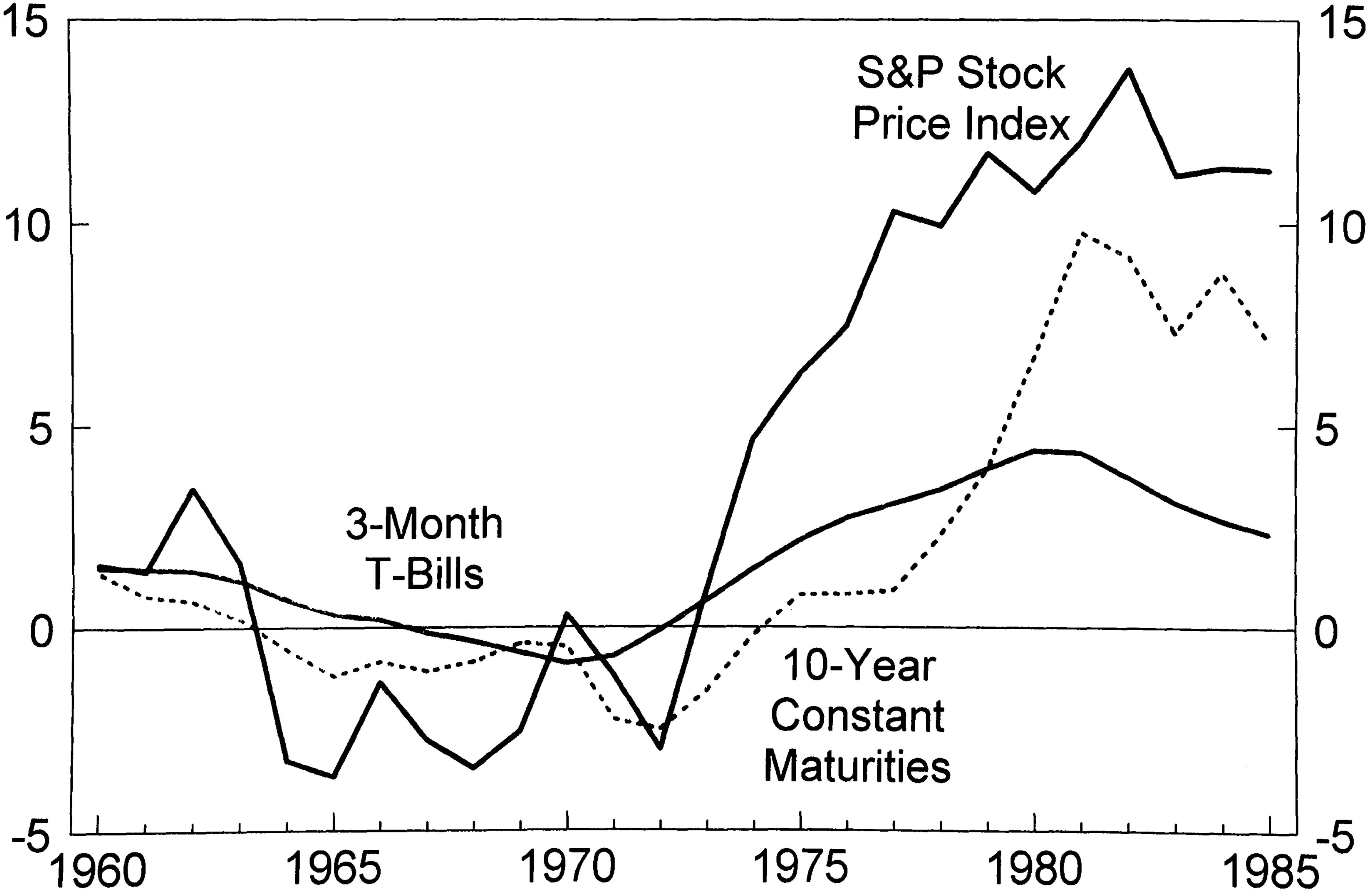
It is difficult to know what path these instruments will take. Nevertheless, we believe, they are a step in the right direction. One of the tasks of government is to innovate. We hope this innovation will prove successful and that it may, indeed. be only the first step on a long path of innovation as retool our financial markets for the 21st century.

INFLATION AND INDEXED BONDS



EX-POST REAL RATES OF RETURN OVER 10 YEARS

ANNUAL AVERAGES, ADJUSTED BY THE CPI-U



AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 30, 1996

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 10-DAY BILLS

Tenders for $7,011 million of 10-day bills to be issued June 3, 1996 and to mature June 13, 1996 were accepted today (CUSIP: 912794Z31).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.14%	5.23%	99.857
High	5.20%	5.26%	99.856
Average	5.17%	5.26%	99.856

Tenders at the high discount rate were allotted 67%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$29,435,000	$7,010,500
Type		
Competitive	$29,435,000	$7,010,500
Noncompetitive	0	0
Subtotal, Public	$29,435,000	$7,010,500
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$29,435,000	$7,010,500

5.15 - 99.857   5.16 - 99.857   5.18 - 99.856
5.19 - 99.856

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 30, 1996

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 15-DAY BILLS

Tenders for $23,086 million of 15-day bills to be issued June 3, 1996 and to mature June 18, 1996 were accepted today (CUSIP: 9127946V1).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.15%	5.24%	99.785
High	5.23%	5.32%	99.782
Average	5.20%	5.29%	99.783

Tenders at the high discount rate were allotted 36%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$52,006,000	$23,086,200
Type		
Competitive	$52,006,000	$23,086,200
Noncompetitive	0	0
Subtotal, Public	$52,006,000	$23,086,200
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$52,006,000	$23,086,200

5.17 - 99.785 5.18 - 99.784 5.19 - 99.784
5.21 - 99.783 5.22 - 99.783

AUCTION RESULTS

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 30, 1996

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $12,501 million of 5-year notes, Series J-2001, to be issued May 31, 1996 and to mature May 31, 2001 were accepted today (CUSIP: 912827Y22).

The interest rate on the notes will be 6 1/2%. All competitive tenders at yields lower than 6.565% were accepted in full. Tenders at 6.565% were allotted 22%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 6.565%, with an equivalent price of 99.727. The median yield was 6.540%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 6.500%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$32,527,250	$12,500,550

The $12,501 million of accepted tenders includes $559 million of noncompetitive tenders and $11,942 million of competitive tenders from the public.

In addition, $650 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $550 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
May 31, 1996

UNITED STATES AND AUSTRIA SIGN NEW INCOME TAX CONVENTION

The Treasury Department announced today that a new income tax Convention with Austria was signed in Vienna. The Convention was signed for the United States by Ambassador Swanee Hunt and for Austria by Austrian State Secretary for Foreign Affairs Dr. Benita Ferrero-Waldner. Notes were exchanged at the time of the signing giving effect to a Memorandum of Understanding interpreting a number of provisions of the new Convention. The new Convention will replace the existing Convention between the United States and Austria, which was signed in 1956 and has been in effect, unamended, since 1957. The new Convention will enter into force after the countries have exchanged the instruments of ratification.

The new Convention generally follows the pattern of the OECD Model Convention and of recent U.S. treaties with other developed countries. The withholding rates on investment income in the proposed Convention are generally the same as those in the present U.S.- Austria treaty. Anti-abuse rules, however, are provided for certain classes of investment income, including dividends paid by non-taxable conduit entities, such as U.S. RICs and REITs and their Austrian equivalents. The proposed Convention preserves the U.S. right to impose its branch tax on U.S. branches of Austrian corporations, which is not preserved under the present treaty. In other respects, the taxation of business income and various forms of personal services income under the proposed Convention substantially follows the pattern of recent U.S. treaties and the OECD Model.

Like other recently concluded U.S. treaties, the new Convention contains limitation on benefits rules intended to prevent third-country residents from benefitting inappropriately from the Convention. The limitation on benefits article lists a series of attributes, e.g., the ownership and base erosion test, the publicly traded test, and the active trade or business and substantiality test, that entitle residents of the Contracting

States to obtain some or all of the benefits of the Convention. The article also contains a provision allowing the competent authorities certain discretionary powers to grant benefits. The present Convention contains no such limitation on benefits rules. A major objective of the United States in updating existing Conventions is to curtail the forms of treaty abuse dealt with by these provisions.

The new Convention contains standard mutual agreement rules. These rules provide for cooperation between the competent authorities to resolve disputes that may arise under the Convention and cases of double taxation not provided for in the Convention. This latter provision allows the competent authorities to implement the Convention in particular cases in a manner consistent with its expressed general purposes, even though the cases are not specifically covered by the Convention.

The exchange of information provisions in the new Convention are somewhat more limited than under most U.S. tax treaties, because they limit access to bank information to that relating to cases in the penal investigation stage or subsequent stages. The treaty does, however, clarify that under Austrian law, bank information can be provided for purposes of a pending penal investigation. The new Convention confirms the understanding that the commencement of a criminal investigation by the Criminal Investigation Division of the U.S. Internal Revenue Service constitutes a pending penal investigation. Also, as under the estate tax treaty, exchanged information may be used in court. For exchange of information purposes, the Convention applies to taxes of every kind imposed by a Contracting State.

The new Convention will be transmitted to the Senate for its advice and consent to ratification. The new Convention will enter into force on the first day of the second month following the exchange of instruments of ratification. The Convention will have effect with respect to taxes payable at source for payments made or credited on or after the first day of the second month following entry into force. In other cases it will take effect with respect to taxable years beginning on or after the first day of January following entry into force. Thus, for example, if instruments are exchanged on October 15, 1996, the treaty will enter into force on December 1, 1996. It will have effect for withholding tax purposes for payments made or credited on or after February 1, 1997. For other purposes, it will have effect for taxable years beginning on or after January 1, 1997. Where the present Convention affords a more favorable result for a taxpayer than the new Convention, the taxpayer may elect to continue to apply the provisions of the present Convention, in its entirety, for one additional year.

Copies of the new Convention, along with the notes and Memorandum of Understanding, are available from the Office of Public Affairs, Treasury Department, Room 2315, Washington, D.C. 20220. Telephone: (202) 622-2960.

-30-

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 202-622-2960
FFB 202-622-2450

May 31, 1996

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of April 1996.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $66.1 billion on April 30, 1996, posting a decrease of $646.1 million from the level on March 31, 1996. This net change was the result of a decrease in holdings of agency debt of $299.1 million, in agency assets of $240.0 million, and in agency guaranteed loans of $107.0 million. FFB made 17 disbursements, extended the maturity or reset the interest rate on 79 loans, and, under Section 306C, refinanced 17 loans guaranteed by the Rural Utilities Service, during the month of April. FFB also received 12 prepayments in April.

Attached to this release are tables presenting FFB April loan activity and FFB holdings as of April 30, 1996.

FEDERAL FINANCING BANK
APRIL 1996 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
AGENCY DEBT				
RESOLUTION TRUST CORPORATION				
Note 29 /Advance #1	4/1	$7,504,456,257.30	7/1/96	5.259% S/A
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Atlanta CDC Office Bldg.	4/4	$2,135.42	9/2/25	6.765% S/A
HCFA Services	4/4	$101,993.00	7/1/25	6.765% S/A
HCFA Services	4/4	$158,498.00	7/1/25	6.765% S/A
HCFA Services	4/4	$72,673.73	7/1/25	6.765% S/A
HCFA Headquarters	4/4	$2,753.43	7/1/25	6.765% S/A
HCFA Headquarters	4/5	$417,756.00	7/1/25	6.804% S/A
Chamblee Office Building	4/11	$962,193.95	4/1/97	5.754% S/A
Miami Law Enforcement	4/11	$1,403.86	1/3/22	7.066% S/A
Foley Square Office Bldg.	4/12	$145,386.00	7/31/25	7.114% S/A
HCFA Headquarters	4/16	$733.38	7/1/25	6.942% S/A
Memphis IRS Service Cent.	4/22	$546,876.02	1/2/25	6.964% S/A
Foley Square Courthouse	4/26	$130,237.00	7/31/25	6.975% S/A
GSA/PADC				
ICTC Building	4/5	$7,265,837.57	11/2/26	6.805% S/A
RURAL UTILITIES SERVICE				
*Allegheny Electric #255	4/1	$3,666,481.20	9/30/96	5.292% Qtr.
*Allegheny Electric #255	4/1	$5,238,483.92	9/30/96	5.292% Qtr.
*Allegheny Electric #908	4/1	$994,511.30	9/30/96	5.169% Qtr.
*Allegheny Electric #908	4/1	$4,667,764.72	9/30/96	5.292% Qtr.
*Allegheny Electric #908	4/1	$2,772,000.00	9/30/96	5.292% Qtr.
*Brazos Electric #917	4/1	$3,486,226.96	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$2,667,425.11	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$2,174,188.63	7/1/96	5.134% Qtr.

S/A is a Semi-annual rate: Qtr. is a Quarterly rate.
* maturity extension or interest rate reset

FEDERAL FINANCING BANK
APRIL 1996 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
GOVERNMENT - GUARANTEED LOANS				
RURAL UTILITIES SERVICE (continued)				
*Brazos Electric #917	4/1	$1,585,709.99	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$2,098,694.44	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$269,371.22	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$2,410,311.33	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$2,253,924.30	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$564,092.94	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$1,148,819.33	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$18,153.56	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$480,008.78	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$450,264.92	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$4,172,548.93	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$3,898,698.74	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$998,743.69	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$1,096,213.45	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$1,407,325.82	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$1,731,637.56	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$424,601.64	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$979,369.60	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$1,278,753.29	7/1/96	5.134% Qtr.
+Brazos Electric #917	4/1	$851,507.83	9/30/96	5.203% Qtr.
+Brazos Electric #917	4/1	$489,571.20	9/30/96	5.203% Qtr.
+Brazos Electric #917	4/1	$468,660.83	9/30/96	5.203% Qtr.
+Brazos Electric #917	4/1	$915,293.08	9/30/96	5.203% Qtr.
+Brazos Electric #917	4/1	$289,552.14	9/30/96	5.203% Qtr.
+Brazos Electric #917	4/1	$1,088,522.52	9/30/96	5.203% Qtr.
+Brazos Electric #917	4/1	$2,142,749.25	9/30/96	5.203% Qtr.
+Brazos Electric #917	4/1	$351,014.56	9/30/96	5.203% Qtr.
+Brazos Electric #917	4/1	$104,052.19	9/30/96	5.203% Qtr.
+Brazos Electric #917	4/1	$254,752.55	9/30/96	5.203% Qtr.
*Brazos Electric #917	4/1	$2,363,473.46	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$2,679,748.15	7/1/96	5.134% Qtr.
+Brazos Electric #917	4/1	$1,402,304.01	9/30/96	5.200% Qtr.
+Brazos Electric #917	4/1	$888,429.68	9/30/96	5.202% Qtr.
+Brazos Electric #917	4/1	$630,928.77	9/30/96	5.199% Qtr.
+Brazos Electric #917	4/1	$3,701,149.95	9/30/96	5.202% Qtr.

Qtr. is a Quarterly rate.
* maturity extension or interest rate reset
+ 306C refinancing

FEDERAL FINANCING BANK
APRIL 1996 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
GOVERNMENT - GUARANTEED LOANS				
RURAL UTILITIES SERVICE (continued)				
+Brazos Electric #917	4/1	$2,393,344.23	9/30/96	5.201% Qtr.
+Brazos Electric #917	4/1	$1,880,519.09	9/30/96	5.199% Qtr.
+Brazos Electric #917	4/1	$550,193.75	9/30/96	5.201% Qtr.
*Brazos Electric #917	4/1	$60,657.47	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$2,365,674.80	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$698,304.42	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$477,739.38	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$2,192,645.83	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$1,281,780.21	7/1/96	5.134% Qtr.
*Brazos Electric #917	4/1	$1,665,452.94	7/1/96	5.134% Qtr.
*Coop. Power Assoc. #070	4/1	$9,254,285.64	3/31/98	5.861% Qtr.
*Coop. Power Assoc. #156	4/1	$1,248,045.80	3/31/98	5.862% Qtr.
*Coop. Power Assoc. #156	4/1	$1,841,370.25	3/31/98	5.862% Qtr.
*Kansas Elec. Power #904	4/1	$704,544.75	3/31/98	5.862% Qtr.
*Kansas Elec. Power #904	4/1	$885,535.75	3/31/98	5.862% Qtr.
*Kansas Elec. Power #904	4/1	$640,848.25	3/31/98	5.862% Qtr.
*Kansas Elec. Power #904	4/1	$446,651.75	3/31/98	5.862% Qtr.
*Kansas Elec. Power #904	4/1	$827,276.75	3/31/98	5.862% Qtr.
*Kansas Elec. Power #904	4/1	$967,098.25	3/31/98	5.862% Qtr.
*Meade County Elec. #356	4/1	$502,031.25	3/31/98	5.865% Qtr.
*Northwest Iowa Power #907	4/1	$7,553,476.67	7/1/96	5.134% Qtr.
*Oglethorpe Power #916	4/1	$19,419,292.70	9/30/96	5.169% Qtr.
*Oglethorpe Power #916	4/1	$22,650,976.39	7/1/96	5.134% Qtr.
*Plains Elec. #918	4/1	$6,018,371.46	7/1/96	5.134% Qtr.
*Plains Elec. #918	4/1	$10,041,147.55	7/1/96	5.134% Qtr.
*Plains Elec. #918	4/1	$7,241,629.87	7/1/96	5.134% Qtr.
*Plains Elec. #918	4/1	$7,367,983.24	7/1/96	5.134% Qtr.
*Plains Elec. #918	4/1	$5,865,783.67	7/1/96	5.134% Qtr.
*Plains Elec. #918	4/1	$3,043,395.93	7/1/96	5.134% Qtr.
*Plains Elec. #918	4/1	$910,261.97	7/1/96	5.134% Qtr.
*Plains Elec. #918	4/1	$1,632,357.13	7/1/96	5.134% Qtr.
*Plains Elec. #918	4/1	$579,061.01	7/1/96	5.134% Qtr.
*Saluda River Elec. #903	4/1	$6,312,364.18	7/1/96	5.134% Qtr.
*Saluda River Elec. #903	4/1	$1,617,442.97	7/1/96	5.134% Qtr.
*Saluda River Elec. #903	4/1	$2,616,529.83	7/1/96	5.134% Qtr.

Qtr. is a Quarterly rate.
* maturity extension or interest rate reset
+ 306C refinancing

FEDERAL FINANCING BANK
APRIL 1996 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
GOVERNMENT - GUARANTEED LOANS				
RURAL UTILITIES SERVICE (continued)				
*Saluda River Elec. #903	4/1	$7,754,834.68	7/1/96	5.134% Qtr.
*Saluda River Elec. #903	4/1	$2,125,293.84	7/1/96	5.134% Qtr.
*Saluda River Elec. #903	4/1	$3,949,429.28	7/1/96	5.134% Qtr.
*Saluda River Elec. #903	4/1	$8,049,144.52	7/1/96	5.134% Qtr.
*Saluda River Elec. #903	4/1	$2,032,019.13	7/1/96	5.134% Qtr.
*San Miguel Electric #919	4/1	$10,010,949.86	7/1/96	5.134% Qtr.
*San Miguel Electric #919	4/1	$10,511,614.43	7/1/96	5.134% Qtr.
*Sho-Me Power #913	4/1	$446,962.08	3/31/97	5.377% Qtr.
*United Power Assoc. #911	4/1	$918,362.60	7/1/96	5.134% Qtr.
*United Power Assoc. #911	4/1	$11,020,350.15	7/1/96	5.134% Qtr.
*United Power Assoc. #911	4/1	$3,563,173.98	7/1/96	5.134% Qtr.
*United Power Assoc. #911	4/1	$3,002,399.92	7/1/96	5.134% Qtr.
*United Power Assoc. #911	4/1	$3,564,267.04	7/1/96	5.134% Qtr.
*United Power Assoc. #911	4/1	$3,794,527.94	7/1/96	5.134% Qtr.
*United Power Assoc. #911	4/1	$4,205,805.56	7/1/96	5.134% Qtr.
*United Power Assoc. #911	4/1	$1,179,380.17	7/1/96	5.134% Qtr.
*United Power Assoc. #911	4/1	$897,580.38	7/1/96	5.134% Qtr.
J.B.N. Telephone Co. #423	4/5	$2,000,000.00	1/2/18	6.688% Qtr.
Pulaski-White Tele. #417	4/18	$761,000.00	12/31/14	6.765% Qtr.
Central Power Elec. #395	4/22	$29,000.00	12/31/26	6.898% Qtr.
O & A Electric Coop. #379	4/25	$905,000.00	1/3/00	6.273% Qtr.

Qtr. is a Quarterly rate.
* maturity extension or interest rate reset

FEDERAL FINANCING BANK
(in millions)

			Net Change	FY '96 Net Change
Program	April 30, 1996	March 31, 1996	4/1/96-4/30/96	10/1/95-4/30/96
Agency Debt:				
Export-Import Bank	$ 2,008.3	$ 2,008.3	$ 0.0	$ -498.0
Resolution Trust Corporation	7,205.3	7,504.5	-299.1	-6,003.2
Tennessee Valley Authority	0.0	0.0	0.0	-3,200.0
U.S. Postal Service	300.0	300.0	0.0	-6,964.7
sub-total*	9,513.6	9,812.7	-299.1	-16,666.0
Agency Assets:				
FmHA-ACIF	1,175.0	1,415.0	-240.0	-295.0
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	21,015.0	21,015.0	0.0	-685.0
DHHS-Health Maintenance Org.	8.1	8.1	0.0	0.0
DHHS-Medical Facilities	23.8	23.8	0.0	0.0
Rural Utilities Service-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	0.1	0.1	0.0	0.0
sub-total*	30,495.9	30,735.9	-240.0	-980.0
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	3,351.3	3,357.2	-5.9	-141.7
DHUD-Community Dev. Block Grant	81.0	81.0	0.0	-8.1
DHUD-Public Housing Notes	1,626.8	1,626.8	0.0	-61.7
General Services Administration +	2,319.7	2,309.9	9.8	52.9
DOI-Virgin Islands	20.2	20.2	0.0	-0.8
DON-Ship Lease Financing	1,382.8	1,382.8	0.0	-49.3
Rural Utilities Service	16,940.4	17,048.7	-108.3	-335.1
SBA-Small Business Investment Cos.	0.0	0.0	0.0	-5.5
SBA-State/Local Development Cos.	333.9	336.5	-2.6	-21.9
DOT-Section 511	13.5	13.5	0.0	-1.0
sub-total*	26,069.6	26,176.6	-107.0	-572.2
	=========	=========	=========	=========
grand-total*	$ 66,079.1	$ 66,725.2	$ -646.1	$-18,218.2

*figures may not total due to rounding
+does not include capitalized interest

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
May 31, 1996

Contact: Darren McKinney
(202) 622-2960

TREASURY SECRETARY TO HONOR BOSTON POLICE UNIT

Treasury Secretary Robert Rubin Monday will join Boston Police Commissioner Paul F. Evans in a commendation ceremony honoring the Boston Police Department's ballistics unit for its work in the ATF-sponsored CEASEFIRE program that uses state-of-the-art computer technology to investigate firearms crimes.

The Monday, June 3, ceremony will begin at 9:30 a.m. at Boston Police Department Headquarters, 154 Berkeley Street in Boston. Secretary Rubin will discuss the cooperation between local, state and federal law enforcement authorities and be available for questions.

The Bureau of Alcohol, Tobacco and Firearms' successful CEASEFIRE computer program analyzes ballistics data from various gun crimes, assisting investigators as they search for patterns and develop leads.

-30-

Additional contacts:

Boston Police Department: Lt. Bob O'Toole (617) 343-4520
ATF Boston: Bill Pickett (617) 565-7071 or 7040

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CONVENTION BETWEEN THE REPUBLIC OF AUSTRIA AND THE UNITED STATES OF AMERICA FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME

The Republic of Austria and the United States of America, desiring to conclude a convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, have agreed as follows:

ARTICLE 1

Personal Scope

1. Except as otherwise provided in this Convention, this Convention shall apply to persons who are residents of one or both of the Contracting States.

2. This Convention shall not restrict in any manner any exclusion, exemption, deduction, credit, or other allowance now or hereafter accorded

a) by the laws of either Contracting State, or

b) by any other agreement between the Contracting States.

3. Notwithstanding the provisions of subparagraph 2(b):

a) Notwithstanding any other agreement to which the Contracting States may be parties, a dispute concerning whether a measure is within the scope of this Convention shall be considered only by the competent authorities of the Contracting States, as defined in subparagraph 1(e) of Article 3 (General Definitions) of this Convention, and the procedures under this Convention exclusively shall apply to the dispute.

b) Unless the competent authorities determine that a taxation measure is not within the scope of this Convention, the nondiscrimination obligations of this Convention exclusively shall apply with respect to that measure, except for such national treatment or most-favored-nation obligations as may apply to trade in goods under the General Agreement on Tariffs and Trade. No national treatment or most-favored-nation obligation under any other agreement shall apply with respect to that measure.

c) For the purpose of this paragraph, a "measure" is a law, regulation, rule, procedure, decision, administrative action, or any other form of measure.

4. Notwithstanding any provision of this Convention except paragraph 5 of this Article, a Contracting State may tax its residents (as determined under Article 4 (Resident)), and by reason of citizenship may tax its citizens, as if this Convention had not come into effect. For this purpose the term "citizen" shall include a former citizen whose loss of citizenship had as one of its principal purposes the avoidance of tax, but only for a period of 10 years following such loss.

5. The provisions of paragraph 4 shall not affect:

a) the benefits conferred by a Contracting State under paragraph 2 of Article 9 (Associated Enterprises), paragraph 4 of Article 13 (Capital Gains), subparagraph b) of paragraph 1 and paragraph 3 of Article 18 (Pensions), Articles 22 (Relief from Double Taxation), 23 (Non-Discrimination) and 24 (Mutual Agreement Procedure); and

b) the benefits conferred by a Contracting State under Articles 19 (Government Service), 20 (Students and Trainees) and 26 (Diplomatic Agents and Consular Officers), upon individuals who are not citizens of that State, and who, in the case of the United States, do not have immigrant status.

ARTICLE 2

Taxes Covered

1. This Convention shall apply to taxes on income imposed on behalf of a Contracting State.

2. The existing taxes to which this Convention shall apply are:

a) In the United States: the Federal income taxes imposed by the Internal Revenue Code (but excluding social security taxes);

b) In Austria:

(i) die Einkommensteuer (the income tax); and

(ii) die Koerperschaftsteuer (the corporation tax).

3. The Convention shall apply also to any identical or substantially similar taxes which are imposed by a Contracting State after the date of signature of this Convention in addition to, or in place of, the existing taxes. The competent authorities of the Contracting States

shall notify each other of any significant changes which have been made in their respective taxation laws and shall notify each other of any official published material concerning the application of this Convention, including explanations, regulations, rulings, or judicial decisions.

4. For the purpose of Article 23 (Non-Discrimination), this Convention shall also apply to taxes of every kind and description imposed by a Contracting State or a political subdivision or local authority thereof. For the purpose of paragraphs 1 to 5 of Article 25 (Exchange of Information and Administrative Assistance), this Convention shall also apply to taxes of every kind imposed by a Contracting State.

ARTICLE 3

General Definitions

1. For the purposes of this Convention:

a) the term "person" includes an individual, an estate, a trust, a company and any other body of persons;

b) the term "company" means any body corporate or any entity which is treated as a body corporate for tax purposes;

c) the terms "enterprise of a Contracting State" and "enterprise of the other Contracting State" mean respectively an enterprise carried on by a resident of a Contracting State and an enterprise carried on by a resident of the other Contracting State;

d) the term "international traffic" means any transport by a ship or aircraft, except where such transport is solely between places in the other Contracting State;

e) the term "competent authority" means:

(i) in the United States: the Secretary of the Treasury or his delegate; and

(ii) in Austria: the Federal Minister of Finance or his delegate;

f) (i) the term "United States" means the United States of America, but does not include Puerto Rico, the Virgin Islands, Guam or any other United States possession or territory;

(ii) when used in a geographical sense, the term "United States" means the states thereof and the District of Columbia. Such term also includes (A) the territorial sea thereof and (B) the sea bed and subsoil of the submarine areas adjacent to that territorial sea, over which the United States exercises sovereign rights in accordance with international law for the purpose of exploration for and exploitation of the natural resources of such areas, but only to the extent that the person, property, or activity to which this

Convention is being applied is connected with such exploration or exploitation;

g) the term "Austria" means the Republic of Austria;

h) the term "nationals" means:

(i) all individuals possessing the nationality of a Contracting State; and

(ii) all legal persons, partnerships and associations deriving their status as such from the laws in force in a Contracting State.

2. As regards the application of this Convention by a Contracting State any term not defined therein shall, unless the context otherwise requires and subject to the provisions of Article 24 (Mutual Agreement Procedure), have the meaning which it has under the laws of that State concerning the taxes to which this Convention applies.

ARTICLE 4

Resident

1. For the purposes of this Convention, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of the person's domicile, residence, citizenship, place of management, place of incorporation, or any other criterion of a similar nature, provided, however, that:

a) this term does not include any person who is liable to tax in that State in respect only of income from sources in that State;

b) in the case of income derived or paid by a partnership, estate, or trust, this term applies only to the extent that the income derived by such partnership, estate, or trust is subject to tax in that State as the income of a resident, either in its hands or in the hands of its partners, beneficiaries or grantor;

c) in the case of an individual who is not a resident of Austria under paragraph 1, this term includes an individual who is a U.S. citizen or an alien admitted to the United States for permanent residence (a "green card" holder) only if the individual has a substantial presence, permanent home or habitual abode in the United States; and

d) the term includes a Contracting State or a political subdivision or local authority thereof or any agency or instrumentality of any such State, subdivision or authority.

2. Where by reason of the provisions of paragraph 1, an individual is a resident of both Contracting States, then his or her status shall be determined as follows:

a) The individual shall be deemed to be a resident of the State in which he or she has a permanent home available; if such individual has a permanent home available in both States, or in neither State, he or she shall be deemed to be a resident of the State with which his or her personal and economic relations are closer (center of vital interests);

b) If the State of the individual's center of vital interests cannot be determined, he or she shall be deemed to be a resident of the State in which he or she has an habitual abode;

c) If the individual has an habitual abode in both States or in neither of them, he or she shall be deemed to be a resident of the State of which he or she is a national;

d) If the individual is a national of both States or of neither of them, the competent authorities of the Contracting States shall endeavor to settle the question by mutual agreement.

3. Where by reason of the provisions of paragraph 1 a company is a resident of both Contracting States, then if it is created under the laws of a Contracting State or a political subdivision thereof it shall be deemed to be a resident of that State.

4. Where by reason of the provisions of paragraph 1 a person other than an individual or a company is a resident of both Contracting States, the competent authorities of the Contracting States shall settle the question by mutual

agreement and determine the mode of application of the Convention to such person.

ARTICLE 5

Permanent Establishment

1. For the purposes of this Convention, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

2. The term "permanent establishment" shall include especially:

a) a place of management;

b) a branch;

c) an office;

d) a factory;

e) a workshop; and

f) a mine, an oil or gas well, a quarry, or any other place of extraction of natural resources.

3. A building site or construction or installation project, or an installation or drilling rig or ship used for the exploration or development of natural resources, constitutes a permanent establishment only if it has remained in that State more than 12 months.

4. Notwithstanding the preceding provisions of this Article, the term "permanent establishment" shall be deemed not to include:

a) the use of facilities solely for the purpose of storage, display, or delivery of goods or merchandise belonging to the enterprise;

b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;

c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;

d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for the enterprise;

e) the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character;

f) the maintenance of a fixed place of business solely for any combination of the activities mentioned in subparagraphs a) to e) of this paragraph.

5. Notwithstanding the provisions of paragraphs 1 and 2, where a person, other than an agent of an independent status to whom paragraph 6 applies, is acting on behalf of an enterprise and has and habitually exercises in a Contracting State an authority to conclude contracts in the name of the enterprise, that enterprise shall be deemed to

have a permanent establishment in that State in respect of any activities which that person undertakes for the enterprise, unless the activities of such person are limited to those mentioned in paragraph 4 which, if exercised through a fixed place of business, would not make this fixed place of business a permanent establishment under the provisions of that paragraph.

6. An enterprise shall not be deemed to have a permanent establishment in a Contracting State merely because it carries on business in that State through a broker, general commission agent or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business.

7. The fact that a company which is a resident of a Contracting State controls or is controlled by a company which is a resident of the other Contracting State, or which carries on business in that other State (whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other.

ARTICLE 6

Income From Real Property

1. Income derived by a resident of a Contracting State from real property (including income from agriculture or forestry) situated in the other Contracting State may be taxed in that other State.

2. The term "real property" shall have the meaning which it has under the law of the Contracting State in which the property in question is situated. The term shall in any case include property accessory to real property, livestock and equipment used in agriculture and forestry, rights to which the provisions of general law respecting landed property apply, usufruct of real property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources; ships, boats and aircraft shall not be regarded as real property.

3. The provisions of paragraph 1 shall apply to income derived from the direct use, letting, or use in any other form of real property.

4. The provisions of paragraphs 1 and 3 shall also apply to the income from real property of an enterprise and to income from real property used for the performance of independent personal services.

5. A resident of one of the Contracting States who is liable to tax in the other Contracting State on income from

real property situated in the other Contracting State may elect for any taxable year to compute the tax on such income on a net basis as if such income were attributable to a permanent establishment in such other Contracting State. Any such election shall be binding for the taxable year of the election and all subsequent taxable years unless the competent authorities of the Contracting States, pursuant to a request by the taxpayer made to the competent authority of the Contracting State of which the taxpayer is a resident, agree to terminate the election.

ARTICLE 7

Business Profits

1. The business profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the business profits of the enterprise may be taxed in the other State but only so much of them as is attributable to that permanent establishment.

2. Subject to the provisions of paragraph 3, where an enterprise of a Contracting State carries on business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the business

profits which it might be expected to make if it were a distinct and independent enterprise engaged in the same or similar activities under the same or similar conditions.

3. In determining the business profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the permanent establishment, including a reasonable allocation of executive and general administrative expenses, research and development expenses, interest, and other expenses incurred for the purposes of the enterprise as a whole (or the part thereof which includes the permanent establishment), whether incurred in the State in which the permanent establishment is situated or elsewhere.

4. No business profits shall be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise.

5. For the purposes of the preceding paragraphs, the business profits to be attributed to the permanent establishment shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

6. Where business profits include items of income which are dealt with separately in other Articles of this Convention, then the provisions of those Articles shall not be affected by the provisions of this Article.

7. For the purposes of this Convention, "business profits" includes income derived from the rental of tang personal property.

8. The provisions of paragraphs 1 to 7 shall also apply to income derived by a sleeping partner in a sleeping partnership (Stille Gesellschaft) under Austrian law.

9. In applying paragraphs 1 and 2 of Article 7 (Business Profits), paragraph 4 of Article 10 (Dividends), paragraph 3 of Article 11 (Interest), paragraph 4 of Article 12 (Royalties), paragraph 3 of Article 13 (Capital Gains), Article 14 (Independent Personal Services) and paragraph 2 of Article 21 (Other Income), any income earned during the existence of, and attributable to, a permanent establishment or fixed base is taxable in the Contracting State in which such permanent establishment or fixed base is situated even if the payments in respect of such income are deferred until such permanent establishment or fixed base has ceased to exist.

ARTICLE 8

Shipping and Air Transport

1. Profits of an enterprise of a Contracting State from the operation in international traffic of ships or aircraft shall be taxable only in that State.

2. For purposes of this Article, profits from the operation in international traffic of ships or aircraft

include profits derived from the rental on a full or bareboat basis of ships or aircraft if operated in international traffic by the lessee or if such rental profits are incidental to other profits described in paragraph 1.

3. Profits of an enterprise of a Contracting State from the use, rental or maintenance of containers (including trailers, barges, and related equipment for the transport of containers) used in international traffic shall be taxable only in that State.

4. The provisions of paragraph 1 shall also apply to profits from the participation in a pool, a joint business or an international operating agency.

ARTICLE 9

Associated Enterprises

1. Where

a) an enterprise of a Contracting State participates directly or indirectly in the management, control or capital of an enterprise of the other Contracting State; or

b) the same persons participate directly or indirectly in the management, control or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State, and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly.

It is understood, however, that the fact that associated enterprises have concluded arrangements, such as cost-sharing arrangements or general services agreements, for or based on the allocation of executive, general administrative, technical and commercial expenses, research and development expenses and other similar expenses, is not in itself a condition as meant in the preceding sentence.

2. Where a Contracting State includes in the profits of an enterprise of that State, and taxes accordingly, profits on which an enterprise of the other Contracting State has been charged to tax in that other State, and the profits so included are profits which would have accrued to the enterprise of the first-mentioned State if the conditions made between the two enterprises had been those which would have been made between independent enterprises, then that other State shall make an appropriate adjustment to the amount of the tax charged therein on those profits. In determining such adjustment, due regard shall be had to

the other provisions of this Convention and the competent authorities of the Contracting States shall if necessary consult each other.

ARTICLE 10

Dividends

1. Dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other State.

2. However, such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident, and according to the laws of that State, but if the beneficial owner of the dividends is a resident of the other Contracting State, the tax so charged shall not exceed:

a) 5 percent of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which owns directly at least 10 percent of the voting stock of the company paying the dividends;

b) 15 percent of the gross amount of the dividends in all other cases.

Subparagraph b) and not subparagraph a) shall apply in the case of dividends paid by a United States person that is a Regulated Investment Company. Subparagraph a) shall not apply to dividends paid by a United States person that is a Real Estate Investment Trust, and subparagraph b) shall apply only if the dividend is beneficially owned by an individual holding less than a 10 percent interest in the Real Estate Investment Trust. This paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. The term "dividends" as used in this Article means income from shares or other rights, not being debt-claims, participating in profits, as well as income from other corporate rights which is subjected to the same taxation treatment as income from shares by the laws of the State of which the company making the distribution is a resident; and income from arrangements, including debt obligations, carrying the right to participate in, or determined with reference to, profits, to the extent so characterized under the law of the Contracting State in which the income arises.

4. The provisions of paragraphs 1 and 2 shall not apply if the recipient of the dividends, being a resident of a Contracting State, carries on business in the other Contracting State, of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the holding in respect of which the dividends are paid is effectively connected with such permanent establishment or fixed base. In such a case, the provisions of Article 7

(Business Profits) or Article 14 (independent Personal Services), as the case may be, shall apply.

5. Where a company is a resident of a Contracting State, the other Contracting State may not impose any tax on the dividends paid by the company, except insofar as

a) such dividends are paid to a resident of that other State; or

b) the holding in respect of which the dividends are paid is effectively connected with a permanent establishment or a fixed base situated in that other State.

6. A company which is a resident of Austria and which has a permanent establishment in the United States or which is subject to tax on a net basis in the United States on items of income that may be taxed in the United States under Article 6 (Income from Real Property) or under paragraph 1 of Article 13 (Capital Gains), may be subject in the United States to a tax in addition to the tax allowable under the other provisions of this Convention. Such tax, however, may be imposed only on:

a) the portion of the business profits of the company attributable to the permanent establishment; and

b) the portion of the income referred to in the preceding sentence which is subject to tax under Article 6 (Income From Real Property) or Article 13

(Capital Gains), which represents the "dividend equivalent amount" as that term is defined under the laws of the United States as it may be amended from time to time without changing the general principle thereof.

7. The tax referred to in paragraph 6 shall not be imposed at a rate exceeding the rate specified in subparagraph a) of paragraph 2.

ARTICLE 11

Interest

1. Interest derived and beneficially owned by a resident of a Contracting State shall be taxable only in that State.

2. The term "interest" as used in this Convention means income from debt claims of every kind, whether or not secured by a mortgage, and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures, including premiums or prizes attaching to such securities, bonds or debentures, and including an excess inclusion with respect to a residual interest in a real estate mortgage investment conduit. Penalty charges for late payment shall not be regarded as interest for the purpose of this Convention. However, the term "interest"

does not include income dealt with in Article 10 (Dividends).

3. The provisions of paragraph 1 shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on business in the other Contracting State in which the interest arises, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 14 (Independent Personal Services), as the case may be, shall apply.

4. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the interest, having regard to the debt-claim for which it is paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Convention.

5. The provisions of paragraph 1 shall not apply:

a) to an excess inclusion with respect to a residual interest in a real estate mortgage investment conduit; or

b) to interest that is contingent interest of a type that does not qualify as portfolio interest under United States law, and to equivalent amounts under Austrian law.

The classes of interest described in this paragraph are subject to tax in the Contracting State in which the interest arises under the provisions of the internal law of that State.

ARTICLE 12

Royalties

1. Royalties derived and beneficially owned by a resident of a Contracting State shall be taxable only in that State.

2. However, such royalties may also be taxed in the Contracting State in which they arise, if they constitute consideration for the use of, or right to use, cinematograph films, or films, tapes or other means of reproduction used for radio or television broadcasting; but the tax so charged may, not exceed 10 percent of the gross amount of the royalties.

3. The term "royalties" as used in this Convention means payments of any kind received as a consideration for

the use of, or the right to use, any copyright of literary, artistic or scientific work (including cinematograph films or films or tapes used for radio or television broadcasting), any patent, trade mark, design or model, plan, secret formula or process, or other like right or property, or for information concerning industrial, commercial or scientific experience. The term "royalties" also includes gains derived from the alienation of any such right or property which are contingent on the productivity, use, or disposition thereof.

4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the royalties, being a resident of a Contracting State, carries on business in the other Contracting State in which the royalties arise, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the right or property in respect of which the royalties are paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 14 (Independent Personal Services), as the case may be, shall apply.

5. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the royalties, having regard to the use, right or information for which they are

paid, exceeds the amount which would have been agreed upon by the payer and the person deriving the royalties in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the law of each Contracting State, due regard being had to the other provisions of this Convention.

6. Royalties shall be deemed to arise in a Contracting State to the extent that such royalties are paid with respect to the use of, or the right to use, rights or property within that State.

ARTICLE 13

Capital Gains

1. Gains derived by a resident of a Contracting State from the alienation of real property situated in the other Contracting State may be taxed in that other State.

2. For purposes of paragraph 1, the term "real property situated in the other Contracting State",

a) where the United States is the other Contracting State, includes real property referred to in Article 6 which is situated in the United States, a United States real property interest, and an interest in a partnership, trust or estate, to the extent attributable to real property situated in the United States; and

b) where Austria is the other Contracting State, includes:

(i) real property referred to in Article 6 (Income From Real Property) which is situated in Austria; and

(ii) shares or similar rights in a company the assets of which consist, directly or indirectly, mainly of such real property.

3. Gains from the alienation of personal property forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State or of personal property pertaining to a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services, including such gains from the alienation of such a permanent establishment (alone or with the whole enterprise) or of such fixed base, may be taxed in that other State.

4. Gains from the alienation of movable property that a resident of a Contracting State has or had in the other Contracting State and which is removed from that other Contracting State may be taxed in that other State in accordance with its law, but only to the extent of the gain that accrued during the time the asset formed part of the business property of a permanent establishment or fixed base that the resident has or had in that other State. Such gain

may also be taxed in the first-mentioned Contracting State in accordance with its laws. However, the first-mentioned State must exclude from the base of its tax any gain that is or has been taxed in the other Contracting State in accordance with the first sentence of this paragraph.

5. Gains derived by an enterprise of a Contracting State from the alienation of ships, aircraft or containers operated by such enterprise in international traffic shall be taxable only in that State, and gains described in paragraph 3 of Article 12 (Royalties) shall be taxable only in accordance with the provisions of Article 12 (Royalties).

6. Gains from the alienation of any property other than that referred to in the preceding paragraphs, shall be taxable only in the Contracting State of which the alienator is a resident.

7. Where property was transferred by a resident of the United States to an Austrian company as a capital contribution and, in application of the Austrian Reorganization Tax Act (Umgrundungssteuergesetz), no capital gains taxation took place, a subsequent alienation of the respective shares in the Austrian company shall remain taxable in Austria until the year 2010.

ARTICLE 14

Independent Personal Services

Income derived by an individual who is a resident of a Contracting State from the performance of personal services in an independent capacity shall be taxable only in that State, unless such services are performed in the other Contracting State and the income is attributable to a fixed base regularly available to the individual in that other State for the purpose of performing his or her activities.

ARTICLE 15

Dependent Personal Services

1. Subject to the provisions of Articles 18 (Pensions) and 19 (Government Service), salaries, wages and other similar remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State unless the employment is exercised in the other Contracting State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other State.

2. Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned State if:

a) the recipient is present in the other State for a period or periods not exceeding in the aggregate 183 days in any twelve-month period commencing or ending in the fiscal year concerned;

b) the remuneration is paid by, or on behalf of, an employer who is not a resident of the other State; and

c) the remuneration is not borne by a permanent establishment or a fixed base which the employer has in the other State.

3. Notwithstanding the preceding provisions of this Article, remuneration derived by a resident of a Contracting State in respect of an employment as a member of the regular complement of a ship or aircraft operated in international traffic may be taxed only in that Contracting State.

ARTICLE 16

Limitation on Benefits

1. A person which is a resident of a Contracting State and derives income from the other Contracting State shall be entitled, in that other Contracting State, to benefits of this Convention only if such person is:

a) an individual;

b) a Contracting State or a political subdivision or local authority thereof;

c) engaged in the active conduct of a trade or business in the first-mentioned Contracting State (other than the business of making or managing investments, unless these activities are banking or insurance activities carried on by a bank or insurance company), the income derived from the other Contracting State is derived in connection with, or is incidental to, that trade or business, and, with respect to income derived in connection with that trade or business, the trade or business is substantial in relation to the activity carried on in the other Contracting State giving rise to the income in respect of which treaty benefits are being claimed in that other Contracting State;

d) a person, if:

(i) more than 50 percent of the beneficial interest in such person (or in the case of a company, more than 50 percent of the number of shares of each class of the company's shares) is owned, directly or indirectly, by persons entitled to benefits of this Convention under subparagraphs (a), (b), (e), (f) or (g) of this paragraph or who are citizens of the United States; and

(ii) not more than 50 percent of the gross income of such person is used, directly or indirectly, to meet liabilities (including liabilities for interest or royalties) to persons who are not entitled to benefits of this Convention under subparagraph (a), (b), (e), (f) or (g) of this paragraph and are not citizens of the United States;

e) a company in whose principal class of shares there is substantial and regular trading on a recognized stock exchange;

f) a company that is at least 90 percent owned, directly or indirectly, by not more than five companies referred to in subparagraph e), provided that each person in the chain of ownership is a resident of a Contracting State, and provided further that the owner of any remaining portion of the company is an individual resident of a Contracting State;

g) an entity which is a not-for-profit organization (including pension funds and private foundations), and which, by virtue of that status, is generally exempt from income taxation in the Contracting State of which it is a resident, provided that more than half of the beneficiaries, members or participants, if any, in such organization are persons that are entitled, under this Article, to the benefits of the Convention; or

h) a recognized headquarters company for a multinational corporate group.

2. A person that is not entitled to the benefits of the Convention pursuant to the provisions of paragraphs 1 and 4 may, nevertheless, be granted the benefits of the

Convention if the competent authority of the Contracting State in which the income in question arises so determines. The competent authority of the Contracting State in which the income arises will consult with the competent authority of the other Contracting State before denying benefits of this Convention that have been requested under this paragraph.

3. For purposes of subparagraph e) of paragraph 1, the term "a recognized stock exchange" means:

a) the NASDAQ System owned by the National Association of Securities Dealers, Inc. and any stock exchange registered with the U.S. Securities and Exchange Commission as a national securities exchange for purposes of the U.S. Securities Exchange Act of 1934;

b) the Vienna Stock Exchange; and

c) any other stock exchange agreed upon by the competent authorities of the Contracting States.

4. Where an enterprise of Austria derives interest or royalty income from the United States, and that income is attributable to a permanent establishment which the enterprise has in a third jurisdiction (other than a Contracting State), the benefits of paragraph 1 of Article 11 (Interest) and paragraphs 1 and 2 of Article 12 (Royalties), respectively, shall not apply to any such item of income, if the profits of that permanent establishment

are subject to an aggregate effective rate of tax in Austria and the third jurisdiction which is less than 60 percent of the general rate of company tax applicable in Austria. The preceding sentences of this paragraph shall not apply:

a) to interest derived in connection with or incidental to the active conduct of a trade or business carried on by the permanent establishment in the third jurisdiction (other than the business of making or managing investments, unless these activities are banking or insurance activities carried on by a bank or insurance company);

b) to royalties that are received as a compensation for the use of, or the right to use, intangible property produced or developed by the permanent establishment itself; and

c) to income derived by an enterprise of Austria if the United States taxes the profits of such enterprise according to the provisions of subpart F of part III of subchapter N of chapter 1 of subtitle A of the Internal Revenue Code of 1986, as it may be amended from time to time without changing the general principle thereof.

5. The competent authorities shall, in accordance with the provisions of Article 25 (Exchange of Information and Administrative Assistance), exchange such information as is necessary for carrying out the provisions of this Article

and safeguarding, in cases envisioned therein, the application of their domestic law.

ARTICLE 17

Artistes and Athletes

1. Notwithstanding the provisions of Articles 7 (Business Profits), 14 (Independent Personal Services) and 15 (Dependent Personal Services), income derived by a resident of a Contracting State as an entertainer, such as a theatre, motion picture, radio or television artiste, or a musician, or as an athlete, from his or her personal activities as such exercised in the other Contracting State, may be taxed in that other State, except where the amount of the gross receipts derived by such entertainer or athlete, including expenses reimbursed to him or her or borne on his or her behalf, from such activities do not exceed twenty thousand United States dollars ($20,000) or its equivalent in Austrian shillings for the taxable year concerned.

2. Where income in respect of activities exercised by an entertainer or an athlete in his or her capacity as such accrues not to that entertainer or athlete but to another person, that income may, notwithstanding the provisions of Articles 7 (Business Profits), 14 (Independent Personal Services), and 15 (Dependent Personal Services), be taxed in the Contracting State in which the activities of the entertainer or athlete are exercised. The preceding

sentence, shall not apply if it is established that neither the entertainer or athlete, nor persons related thereto, participate directly or indirectly in the profits of such other person in any manner, including the receipt of deferred remuneration, bonuses, fees, dividends, partnership distributions or other distributions.

3. Where, in cases other than those dealt with in the first sentence of paragraph 2, payment in respect of activities exercised by an entertainer or an athlete in his or her capacity as such is made not to that entertainer or athlete but to another person, that payment may, notwithstanding the provisions of Articles 7 (Business Profits) or 14 (Independent Personal Services), be subject to a withholding tax in the Contracting State in which the activities of the entertainer or athlete are exercised; upon request of that other person the withholding tax shall be refunded insofar as the amount of tax withheld exceeds the tax liability of the entertainer or athlete as determined under paragraph 1. Refund claims must be accompanied by documentation required by that Contracting State.

ARTICLE 18

Pensions

1. Subject to the provisions of Article 19 (Government Service),

a) pensions and other similar remuneration beneficially derived by a resident of a Contracting State in consideration of past employment shall be taxable only in that State, and

b) social security payments and other public pensions paid by a Contracting State to an individual who is a resident of the other Contracting State or a citizen of the United States shall be taxable only in the first-mentioned Contracting State.

2. Annuities derived and beneficially owned by a resident of a Contracting State shall be taxable only in that State. The term "annuities" as used in this paragraph means a stated sum paid periodically at stated times during a specified number of years, under an obligation to make the payments in return for adequate and full consideration (other than services rendered).

3. Alimony paid by a resident of a Contracting State to a resident of the other Contracting State shall be taxable only in the first-mentioned Contracting State. The term "alimony" as used in this paragraph means periodic payments made pursuant to a written separation agreement or a decree of divorce, separate maintenance, or compulsory support.

4. Periodic payments, not dealt with in paragraph 3, for the support of a minor child made pursuant to a written separation agreement or a decree of divorce, separate

maintenance, or compulsory support, paid by a resident of a Contracting State to a resident of the other Contracting State, shall be exempt from tax in both Contracting States.

5. a) Contributions borne by an individual who renders dependent personal services in a Contracting State to a pension scheme established in and recognized for tax purposes in the other Contracting State shall be deducted, in the first-mentioned State, in determining the individual's taxable income, and treated in that State, in the same way and subject to the same conditions and limitations as contributions made to a pension scheme that is recognized for tax purposes in that first-mentioned State, provided that:

(i) the individual was not a resident of that State, and was contributing to the pension scheme, immediately before he or she began to exercise employment in that State; and

(ii) the pension scheme is accepted by the competent authority of that State as generally corresponding to a pension scheme recognized as such for tax purposes by that State.

b) For the purposes of sub-paragraph a):

(i) the term "a pension scheme" means an arrangement in which the individual participates in order to secure retirement benefits payable in respect of the dependent personal services referred to in subparagraph a); and

(ii) a pension scheme is recognized for tax purposes in a State if the contributions to the scheme would qualify for tax relief in that State.

ARTICLE 19

Government Service

1. Wages, salaries, and similar remuneration, including pensions, annuities, or similar benefits, paid from public funds of a Contracting State or a political subdivision or a local authority thereof to a citizen of that Contracting State for labor or personal services performed as an employee of that Contracting State or political subdivision or local authority thereof in the discharge of governmental functions shall be taxable only by that Contracting State.

2. The provisions of Articles 14 (Independent Personal Services), 15 (Dependent Personal Services), 17 (Artistes and Athletes), and 18 (Pensions) shall apply to remuneration and pensions in respect of services rendered in connection with a business carried on by a Contracting State or a political subdivision or a local authority thereof.

3. Paragraph 1 shall also apply to remuneration paid to the Austrian Foreign Trade Representatives of the Austrian Federal Economic Chamber and to the staff members

of the Austrian Foreign Trade Offices to the extent that they are discharging governmental functions in the United States, provided that the recipients of such remuneration are citizens of Austria.

ARTICLE 20

Students and Trainees

Payments received by a student, apprentice, or business trainee who is, or was immediately before visiting a Contracting State, a resident of the other Contracting State, and who is present in the first-mentioned State for the purpose of full-time education at a recognized educational institution, or for full-time training, shall not be taxed in that State, provided that such payments arise outside that State, and are for the purpose of the individual's maintenance, education, or training. The exemption from tax provided by this Article shall apply to an apprentice or business trainee only for a period of time not exceeding three years from the date the apprentice or trainee first arrives in the first-mentioned Contracting State for the purpose of his or her training.

ARTICLE 21

Other Income

1. Items of income of a resident of a Contracting State, wherever arising, not dealt with in the foregoing

Articles of this Convention shall be taxable only in that State.

2. The provisions of paragraph 1 shall not apply to income other than income from real property as defined in paragraph 2 of Article 6 (Income From Real Property), if the person deriving the income, being a resident of a Contracting State, carries on business in the other Contracting State through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the right or property in respect of which the income is paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or 14 (Independent Personal Services), as the case may be, shall apply.

ARTICLE 22

Relief from Double Taxation

1. In accordance with the provisions and subject to the limitations of the law of the United States (as it may be amended from time to time without changing the general principle hereof), the United States shall allow to a resident or citizen of the United States as a credit against the United States tax on income:

a) the income tax paid to Austria by or on behalf of such citizen or resident; and

b) in the case of a United States company owning at least 10 percent of the voting stock of a company which is a resident of Austria and from which the United States company receives dividends, the income tax paid to Austria by or on behalf of the distributing company with respect to the profits out of which the dividends are paid.

For the purposes of this paragraph, the taxes referred to in paragraphs 2b) and 3 of Article 2 (Taxes Covered) shall be considered income taxes.

2. Where a United States citizen is a resident of Austria:

a) with respect to items of income that under the provisions of this Convention are exempt from United States tax or that are subject to a reduced rate of United States tax when derived by a resident of Austria who is not a United States citizen, Austria shall allow as a credit against Austrian tax, only the tax paid, if any, that the United States may impose under the provisions of this Convention, other than taxes that may be imposed solely by reason of citizenship under the saving clause of paragraph 4 of Article 1 (Personal Scope);

b) for purposes of computing United States tax on those items of income referred to in subparagraph a), the United States shall allow as a credit against

United States tax the income tax paid to Austria after the credit referred to in subparagraph a); the credit so allowed shall not reduce the portion of the United States tax that is creditable against the Austrian tax in accordance with subparagraph a); and

c) for the exclusive purpose of relieving double taxation in the United States under subparagraph b), items of income referred to in subparagraph a) shall, notwithstanding anything in paragraph 4, be deemed to arise in Austria to the extent necessary to avoid double taxation of such income under subparagraph b).

3. In the case of Austria, double taxation shall be avoided as follows:

a) Where a resident of Austria derives income which, in accordance with the provisions of this Convention, may be taxed in the United States (other than solely by reason of citizenship in accordance with paragraph 4 of Article 1 (Personal Scope)), Austria shall allow as a deduction from the tax on the income of that resident, an amount equal to the income tax paid in the United States. Such deduction shall not, however, exceed that part of the income tax as computed before the deduction is given which is attributable to the income that may be taxed in the United States. A tax levied according to paragraph 6 of Article 10 (Dividends) shall be attributable to the taxable income derived by the permanent establishment in the year for which that tax is levied.

b) Where in accordance with any provision of the Convention income derived by a resident of Austria is exempt from tax in Austria, Austria may nevertheless, in calculating the amount of tax on the remaining income of such resident, take into account the exempted income.

4. For the purposes of allowing relief from double taxation pursuant to paragraph 1 of this Article, and subject to such source rules in the domestic laws of the Contracting States as apply for the purpose of limiting the foreign tax credit, the source of income and profits shall be determined exclusively as follows:

a) income and profits derived by a resident of a Contracting State which may be taxed in the other Contracting State in accordance with this Convention (other than solely by reason of citizenship in accordance with paragraph 4 of Article 1 (Personal Scope)) shall be deemed to arise in that other State;

b) income and profits derived by a resident of a Contracting State which may not be taxed in the other Contracting State in accordance with this Convention shall be deemed to arise in the first-mentioned State.

The rules of this paragraph shall not apply in determining credits against United States tax for foreign taxes other than the taxes referred to in paragraphs 2b) and 3 of Article 2 (Taxes Covered).

ARTICLE 23

Non-Discrimination

1. Nationals of a Contracting State shall not be subjected in the other State to any taxation or any requirement connected therewith, which is other or more burdensome that the taxation and connected requirements to which nationals of that other State in the same circumstances are or may be subjected. This provision shall, notwithstanding the provisions of Article 1 (Personal Scope), also apply to persons who are not residents of one or both of the Contracting States. However, for the purposes of United States tax, a United States national who is not a resident of the United States and an Austrian national who is not a resident of the United States are not in the same circumstances.

2. The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favorably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities. This provision shall not be construed as obliging a Contracting State to grant to residents of the other Contracting State any personal allowances, reliefs and reductions for taxation

purposes on account of civil status or family responsibilities which it grants to its own residents.

3. Except where the provisions of paragraph 1 of Article 9 (Associated Enterprises), paragraph 4 of Article 11 (Interest), or paragraph 5 of Article 12 (Royalties) apply, interest, royalties and other disbursements paid by an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable profits of such enterprise, be deductible under the same condition as if they had been paid to a resident of the first-mentioned State. Similarly, any debts of an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable capital of such enterprise, be deductible under the same conditions as if they had been contracted to a resident of the first-mentioned State.

4. Enterprises of a Contracting State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State, shall not be subjected in the first-mentioned State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which other similar enterprises of the first-mentioned State are or may be subjected.

5. Nothing in this Article shall be construed as preventing a Contracting State from imposing the tax described in paragraphs 6 and 7 of Article 10 (Dividends).

6. The provisions of this Article shall apply to taxes of every kind and description imposed by a Contracting State or a political subdivision or local authority thereof.

ARTICLE 24

Mutual Agreement Procedure

1. Where a person considers that the actions of one or both of the Contracting States result or will result for him or her in taxation not in accordance with the provisions of this Convention, he or she may, irrespective of the remedies provided by the domestic law of those States, present his or her case to the competent authority of the Contracting State of which he or she is a resident or national.

2. The competent authority shall endeavor, if the objection appears to it to be justified and if it is not itself able to arrive at a satisfactory solution, to resolve the case by mutual agreement with the competent authority of the other Contracting State, with a view to the avoidance of taxation which is not in accordance with the Convention. Any agreement reached shall be implemented notwithstanding any time limits in the domestic law of the Contracting States.

3. The competent authorities of the Contracting States shall endeavor to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of the Convention. In particular the competent authorities of the Contracting States may agree:

a) to the same attribution of income, deductions, credits, or allowances of an enterprise of a Contracting State to its permanent establishment situated in the other Contracting State;

b) to the same allocation of income, deductions, credits, or allowances between persons;

c) to the same characterization of particular items of income;

d) to a common determination of the State in which an item of income arises; and

e) to a common meaning of a term.

They may also consult together for the elimination of double taxation in cases not provided for in the Convention.

4. The competent authorities of the Contracting States may communicate with each other directly for the purpose of reaching an agreement in the sense of the preceding paragraphs.

5. The competent authorities of the Contracting States shall consult together with a view to developing a commonly agreed application of the provisions of this Convention, including the provisions of Article 16 (Limitation on

Benefits). The competent authorities of the Contracting States may each prescribe regulations to carry out the purposes of this Convention.

ARTICLE 25

Exchange of Information and Administrative Assistance

1. The competent authorities of the Contracting States shall spontaneously or upon request exchange such information as is necessary for carrying out the provisions of this Convention or of the domestic laws of the Contracting States concerning taxes covered by this Article insofar as the taxation thereunder is not contrary to the Convention. The carrying out of provisions of the domestic laws of the Contracting States concerning taxes includes penal investigations with regard to fiscal offenses relating to taxes covered by this Article. The competent authorities of the Contracting States may agree on information which shall be furnished on a regular basis. The exchange of information is not restricted by Article 1 (Personal Scope). Any information received by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that State and shall be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, or the

oversight of the administration of the taxes covered by this Article. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions.

2. In no case shall the provisions of paragraph 1 be construed so as to impose on a Contracting State the obligation:

a) to carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting State;

b) to supply information which is not obtainable under the laws or in the normal course of the administration of that or of the other Contracting State;

c) to supply information which would disclose any trade, business, industrial, commercial or professional secret or trade process, or information, the disclosure of which would be contrary to public policy.

3. If information concerning taxes is requested by a Contracting State in accordance with this Article, the other Contracting State shall obtain the information to which the request relates in the same manner and to the same extent as if the tax of the first-mentioned State were the tax of that other State and were being imposed by that other State. If specifically requested by the competent authority of a

Contracting State, the competent authority of the other Contracting State shall provide information under this Article in the form of depositions of witnesses and authenticated copies of unedited original documents (including books, papers, statements, records, accounts, or writings), to the same extent such depositions and documents can be obtained under the laws and administrative practices of such other State with respect to its own taxes.

4. The tax authorities of a Contracting State may deliver documents to persons in the other Contracting State by using postal services. Each Contracting State shall, for purposes of its taxes, determine in accordance with its domestic law the legal efficacy or sufficiency of documents so delivered.

5. The preceding paragraphs likewise apply to assistance carried out under penal investigation procedures. However, requests for arrest of persons are not covered by the present Convention.

6. For the purpose of the preceding paragraphs of this Article, this Convention shall apply to taxes of every kind imposed by a Contracting State.

7. The Contracting States undertake to lend each other support and assistance in the collection of taxes to the extent necessary to ensure that relief granted by the present Convention from taxation imposed by a Contracting

State does not inure to the benefit of persons not entitled thereto, provided that:

a) the requesting State must produce a copy of a document certified by its competent authority specifying that the sums referred to for the collection of which it is requesting the intervention of the other State, are finally due and enforceable;

b) a document produced in accordance with the provisions of paragraph 7 shall be rendered enforceable in accordance with the laws of the requested State. It is specified that under current Austrian legislation, such documents must be rendered enforceable by the Regional Finance Directorates (Finanzlandesdirektionen);

c) the requested State shall effect recovery in accordance with the rules governing the recovery of similar tax debts of its own; however, tax debts to be recovered shall not be regarded as privileged debts in the requested State. In the Republic of Austria, judicial execution shall be requested by the Finanzprokuratur or by the finance office delegated to act on his behalf; and

d) appeals concerning the existence or amount of the debt shall lie only to the competent tribunal of the requesting State.

The provisions of this paragraph shall not impose upon either Contracting State the obligation to carry out administrative measures different from those used in the collection of its own tax, or which would be contrary to its sovereignty, security, public policy or its essential interests.

ARTICLE 26

Diplomatic Agents and Consular Officers

Nothing in this Convention shall affect the fiscal privileges of diplomatic agents or consular officers under the general rules of international law or under the provisions of special agreements.

ARTICLE 27

Application of the Convention

Nothing in this Agreement shall be construed so as to preclude either Contracting State from applying any withholding tax system according to its domestic laws. However, if the Agreement provides for an exemption from or a reduction of tax, the amount withheld in excess of the limitations prescribed by the Agreement shall be refunded upon request of the taxpayer entitled to the relief in question.

ARTICLE 28

Entry into Force

1. This Convention shall be subject to ratification. The instruments of ratification shall be exchanged at -
______________ as soon as possible.

2. The Convention shall enter into force on the first day of the second month following the exchange of instruments of ratification. Its provisions allocating taxation rights shall have effect, in respect of taxes withheld at source, for amounts paid or credited on or after the first day of the second month next following, and in respect of taxes on other income, for fiscal periods beginning on or after the first day of January next following, the date on which the Convention enters into force.

3. Where any greater relief from tax would have been afforded to a person entitled to the benefits of the Convention between the United States of America and the Republic of Austria with respect to taxes on income, signed in Washington on October 25, 1956 (hereinafter referred to as "the 1956 Convention") under that Convention than under this Convention, the 1956 Convention shall, at the election of such person, continue to have effect in its entirety for the first assessment period or taxable year following the date on which this Convention would otherwise have effect under the provisions of paragraph 2.

4. The 1956 Convention shall cease to have effect in respect of income to which this Convention applies in accordance with paragraphs 2 or 3 of this Article. The 1956 Convention shall terminate on the last date on which it has effect in accordance with the foregoing provisions of this Article.

ARTICLE 29

Termination

This Convention shall remain in force until terminated by a Contracting State. Either Contracting State may terminate the Convention at any time after 5 years from the date on which this Convention enters into force provided that at least 6 months prior notice of termination has been given in writing through diplomatic channels. In such event, the Convention shall cease to have effect in respect of tax withheld at the source, for amounts paid or credited on or after, and in respect of other taxes, to fiscal periods beginning on or after, the first day of January next following the expiration of the 6 month period.

IN WITNESS THEREOF the undersigned, being duly authorized by their respective Governments, have signed this Convention.

DONE at Vienna in duplicate, in the German and English languages, the two texts having equal authenticity, this __ day of ______, 1996.

FOR THE REPUBLIC OF AUSTRIA:	FOR THE UNITED STATES OF AMERICA:

Memorandum of Understanding

Re Interpretation of the Convention

It is understood that provisions of the Treaty that are drafted according to the corresponding provisions of the Organization for Economic Cooperation and Development (OECD) Model Tax Convention on Income and on Capital shall generally be expected to have the same meaning as expressed in the OECD Commentary thereon. The understanding in the preceding sentence will not apply with respect to the following

a) any reservations or observations to the OECD Model or its Commentary by either Contracting State;

b) any contrary interpretations in this Memorandum of Understanding;

c) any contrary interpretation in a published explanation by one of the Contracting States that has been provided to the competent authority of the other Contracting State prior to the entry into force of the Convention; and

d) any contrary interpretation agreed to by the competent authorities after the entry into force of the Convention.

The Commentary - as it may be revised from time to time - constitutes a means of interpretation in the sense of the Vienna Convention on the Law of Treaties of May 23, 1969.

Re Article 4 (Residence of pass-through entities)

It is understood that the income derived or paid by pass-through entities, such as limited liability companies, is to be treated as the income of a resident of a Contracting State only to the extent that the income is subject to tax in that State in the hands of the beneficial owner or owners of the income as the income of a resident of that Contracting State. Thus, the determination of the residence of such entities for purposes of the Convention is to be made on the same basis as that of a partnership.

Re Article 4 (Center of vital interests in the case of foreign assignments)

The center of vital interests may not be determinable solely by reviewing the circumstances prevailing in one single year; a longer period may have to be taken into consideration.

Re Article 6 (Income derived from the exploitation of rights in immovable property)

Article 6 applies likewise to income derived from the exploitation of rights in immovable property. Thus, a U.S. corporation being the lessee of an Austrian building that is owned by a German corporation would be liable to Austrian taxation on the income received by virtue of sublease contracts concluded with the actual users of the premises; the mere fact that the U.S. corporation does not hold immovable property in

Austria (because the rights of a lessee in the immovable property, being the source of income, are to be considered as movable assets) does not prevent the application of Article 6.

Re Article 10 (Effects of paragraph 1 for the country of source)

Paragraph 1 sets out that dividends "may be taxed" in the country of residence; a rule of that type does not prevent the country of source from also taxing such dividends. In the case of a U.S. REIT with an Austrian substantial participation the limitations provided in paragraph 2 do not affect the source country; this country therefore preserves its full right of taxation.

Re Article 16 (Anti-abuse concept of the treaty)

Special provisions of the treaty designed to curb abusive international transactions and to exclude them from treaty benefits, like Article 16, are not to be understood as preventing a Contracting State from applying a "substance over form" evaluation of facts in other cases not particularly covered by a specific anti-abuse clause of the treaty.

Re Article 16 (Limitation on Benefits)

The following understandings have been reached with respect to the application of Article 16:

Paragraph 1(c)

It is intended that the provisions of subparagraph 1(c) will be self executing. Unlike the provisions of paragraph 2, claiming benefits under this subparagraph does not require advance competent authority ruling or approval. The tax authorities may, of course, on review, determine that the taxpayer has improperly interpreted the subparagraph and is not entitled to the benefits claimed.

Agreement has been reached on certain interpretations with respect to particular terms used in the treaty provision:

"Engaged in the active conduct of a trade or business"

A person that is a resident of one of the States is considered to be engaged in the active conduct of a trade or business in that State not only if such person is directly so engaged but also, e.g., if such person

(i) is a partner in a partnership so engaged;

(ii) is a person in which a controlling beneficial interest is held by a single person which is engaged in the active conduct of a trade or business in that State;

(iii) is a person in which a controlling beneficial interest is held by a group of five or fewer persons each member of which is engaged in activity in that State which is a component part of or directly related to the trade or business in that State;

(iv) is a company that is a member of a group of companies that form or could form a consolidated group for tax purposes according to the law of that State (as applied without regard to the residence of such companies), and the group is engaged in the active conduct of a trade or business in that State;

(v) owns, either alone or as a member of a group of five or fewer persons that are qualified persons or residents of an "identified state", a controlling beneficial interest in a person that is engaged in the active conduct of a trade or business in the State in which the owner is resident;

(vi) is together with another person that is so engaged, under the common control of a person (or a group of five or fewer persons) which (or, in the case of a group, each member of which) is a qualified person or a resident of an "identified state".

"Identified state" means any third country, identified by agreement of the competent authorities, which has effective provisions for the exchange of information with the State in which the person being tested under the above provisions is a resident.

Derived in connection with, or incidental to

Income is derived in connection with or is incidental to a trade or business, e.g., if the income-producing activity in Austria is a line of business which forms a part of or is complementary to the trade or business conducted in the United States by the income recipient or if the income in question is produced by assets forming part of the business property of the income recipient as recognized under the taxation law of the Contracting State in which the trade or business is carried on.

It is understood that in the case of associated enterprises the active conduct of the trade or business of the income recipient resident in one of the Contracting States must be substantial in relation to the activity carried on by an associated enterprise in the other Contracting State giving rise to the income in respect of which treaty benefits are being claimed in that other Contracting State. Whether the trade or business of the income recipient is substantial will generally be determined by reference to its proportionate share of the trade or business in the other State, the nature of the activities performed and the relative contributions made to the conduct of the trade or business in both States. In any case, however, the trade or business of the income recipient will be deemed to be substantial if, for the preceding taxable year, the average of the ratios for the following factors exceeds 10 percent and each of the ratios exceeds 7.5 percent, provided that for any separate factor that does not meet the 7.5 percent test in the first preceding taxable year the average of the ratios for that factor in the three preceding taxable years may be substituted:

(i) the ratio of the value of assets used or held for use in the active conduct of the trade or business by the income recipient in the first-mentioned State to all, or, as the case may be, the proportionate share of the value of such assets so used or held for use by the trade or business producing the income in the other State;

(ii) the ratio of gross income derived from the active conduct of the trade or business by the income recipient in the first-mentioned State to all, or, as the case may be, the proportionate share of the gross income so derived by the trade or business producing the income in the other State; and

(iii) the ratio of the payroll expense of the trade or business for services performed within the first-mentioned State to all, or, as the case may be, the proportionate share of the payroll expense of the trade or business for services performed in the other State.

The following examples reflect understandings reached by the negotiators as to the intended scope of subparagraph 1(c). The examples are structured for purposes of exposition in terms of an Austrian entity claiming U.S. treaty benefits. They are not intended to be exhaustive, but are merely illustrative of the kinds of considerations which are relevant in making a determination as to whether a particular case falls within the scope of subparagraph 1(c).

Example I

Facts: An Austrian resident company is owned by three persons, each resident in a different third country. The company is engaged in an active manufacturing business in Austria. It has a wholly-owned subsidiary in the United States which has been capitalized with debt and equity. The subsidiary is engaged in selling the output of the Austrian parent. The active manufacturing business in Austria is substantial in relation to the activities of the U.S. subsidiary. Are the subsidiary's interest and dividend payments to its Austrian parent eligible for treaty benefits in the United States?

Analysis: Treaty benefits would be allowed because the treaty requirements that the U.S. income is "derived in connection with or is incidental to" the Austrian active business, and that the Austrian business is substantial in relation to the U.S. income generating activity is substantial, are satisfied. This conclusion is based on two elements in the fact pattern presented: (1) the income is connected with the active Austrian business -- in this example in the form of a "downstream" connection; and (2) the active Austrian business is substantial in relation to the business of the U.S. subsidiary.

Example II

Facts: The facts are the same as Example I except that while the income is derived by the Austrian parent of the U.S. subsidiary, the relevant business activity in Austria is carried on by an Austrian subsidiary corporation. The Austrian subsidiary's activities meet the business relationship and substantiality tests of the business connection provision, as described in the preceding example. Are the U.S. subsidiary's dividends and interest payments to the Austrian parent eligible for U.S. treaty benefits?

Analysis: Benefits are allowed because the two Austrian entities (i.e., the one deriving the income and the one carrying on the substantial active business in Austria) are related. Benefits are not denied merely because the income is earned by an Austrian holding company and the relevant activity is carried on in Austria by an Austrian subsidiary. The existence of a similar holding company structure in the United States would not affect the right of the Austrian parent to treaty benefits. Thus, if the Austrian parent owns a subsidiary in the United States which is, itself, a holding company for the group's U.S. activities, which are related to the business activity in Austria, dividends paid by the U.S. holding company to the Austrian parent holding company would be tested for eligibility for benefits in the same way as described above, ignoring the fact that the activities are carried on by one entity and the income in respect of which benefits are claimed is paid by another, related, entity.

Example III

Facts: An Austrian resident company is owned by three persons, each resident in a different third country. The company is the worldwide headquarters and parent of an integrated international business carried on through subsidiaries in many countries. The company's wholly-owned U.S. and Austrian subsidiaries manufacture in their countries of residence products which are part of the group's product line. The United States subsidiary has been capitalized with debt and equity. The active manufacturing business of the Austrian subsidiary is substantial in relation to the activities of the U.S. subsidiary. The Austrian parent manages the worldwide group and also performs research and development to improve the manufacture of the group's product line. Are the U.S. subsidiary's dividend and interest payments to its Austrian parent eligible for treaty benefits in the United States?

Analysis: Treaty benefits would be allowed because the treaty requirement that the United States income is "derived in connection with or is incidental to" the Austrian active business is satisfied. This conclusion is based on two elements in the fact pattern presented: (1) the income is connected with the Austrian active business because the United States subsidiary and the Austrian subsidiary manufacture products which are part of the group's product line, the Austrian parent manages the worldwide group, and the parent performs research and development that benefits both subsidiaries; and (2) the active Austrian business is substantial in relation to the business of the U.S. subsidiary.

Example IV

A third-country resident establishes an Austrian corporation for the purpose of acquiring a large U.S. manufacturing company. The sole business activity of the Austrian corporation (other than holding the stock of the U.S. corporation) is the operation of a small retailing outlet which sells products manufactured by the U.S. company. Is the Austrian corporation entitled to treaty benefits under subparagraph 1 (c) with respect to dividends it receives from the U.S. manufacturer?

Analysis: The dividends would not be entitled to benefits. Although there is, arguably, a business connection between the U.S. and the Austrian businesses, the "substantiality" requirement of the subparagraph is not met.

Example V

Facts: Austrian, German and Belgian corporations create a joint venture in the form of a partnership organized in Austria to manufacture a product in a developing country. The joint venture owns a U.S. sales corporation, which pays dividends to the joint venture. Are these dividends eligible for U.S.-Austrian treaty benefits?

Analysis: Under Article 4, only the Austrian partner is a resident of Austria for purposes of the treaty. The question arises under this treaty, therefore, only with respect to the Austrian partner's share of the dividends. If the Austrian partner meets the ownership and base erosion tests of subparagraph 1(d) or the public trading tests of subparagraphs 1(e) or 1(f), it is entitled to benefits without reference to subparagraph 1(c). If not, the analysis of the previous examples would be applied to determine eligibility for benefits under 1(c). The determination of treaty benefits available to the German and Belgian partners will be made under the United States treaties with Germany and Belgium.

Example VI

Facts: An Austrian corporation, a German corporation and a Belgian corporation create a joint venture in the form of an Austrian resident corporation in which they take equal shareholdings. The joint venture corporation engages in an active manufacturing business in Austria. Income derived from that business that is retained as working capital is invested in U.S. Government securities and other U.S. debt instruments until needed for use in the business. Is interest paid on these instruments eligible for U.S.-Austrian treaty benefits?

Analysis: The interest would be eligible for treaty benefits. Interest income earned from short-term investment of working capital is incidental to the business in Austria of the Austrian joint venture corporation.

Paragraph 1(h)

A person shall be considered a recognized headquarter company if:

a) it provides in its state of residence a substantial portion of the overall supervision and administration of the group, which may include, but cannot be principally, group financing;

b) the corporate group consists of corporations resident in, and engaged in an active business in, at least five countries, and the business activities carried on in each of the five countries (or five groupings of countries) generate at least 10 percent of the gross income of the group;

c) the business activities carried on in any one country other than the State of residence of the headquarter company generate less than 50 percent of the gross income of the group;

d) no more than 25 percent of its gross income is derived from the other State;

e) it has, and exercises, independent discretionary authority to carry out the functions referred to in subparagraph (a);

f) it is subject to the same income taxation rules in its country of residence as other persons entitled to the benefits of this Convention; and

g) the income derived in the other State either is derived in connection with, or is incidental to, the business activities referred to in subparagraph b).

If the income requirements for being considered a recognized headquarter company (subparagraphs b, c, or d) are not fulfilled, they will be deemed to be fulfilled if the required ratios are met when averaging the gross income of the preceding four years.

Paragraph 2

Paragraph 2 of Article 16 provides that a resident of a Contracting State that derives income from the other Contracting State and is not entitled to the benefits of the Convention under any of the provisions of paragraph 1, may, nevertheless, be granted benefits at the discretion of the competent authority of the Contracting State in which the income arises. The paragraph itself provides no guidance to competent authorities or taxpayers as to how the discretionary authority is to be exercised. This memorandum of understanding is intended to provide some discussion and guidance.

It is assumed that, for purposes of implementing paragraph 2, a taxpayer will be permitted to present his case to his competent authority for an advance determination based on the facts, and will not be required to wait until the tax authorities of one of the Contracting States have determined that benefits are denied. In these circumstances, it is also expected that if the competent authority determines that benefits are to be allowed, benefits will be allowed retroactively to the time of entry into force of the relevant treaty provision or the establishment of the structure in question, whichever is later.

In making determinations under paragraph 2, the competent authority shall take into account as a guideline whether the establishment, acquisition, or maintenance of such person or the conduct of its operations has or had as its principal purpose the obtaining of benefits under the Convention. It is understood that the competent authorities will take into account all relevant facts and circumstances. The factual criteria that the competent authorities are expected to take into account may include, among others, the existence of a clear business purpose for the structure and location of the income earning entity in question; the conduct of an active trade or business (as opposed to a mere investment activity) by such entity; a valid business nexus between that entity and the activity giving rise to the income; and, the extent to which the entity, if it is a corporation, would be entitled to treaty benefits comparable to those afforded by this Convention if it had been incorporated in the country of residence of the majority.

The following example illustrates the application of some of these principles:

Facts: Austrian, German and Belgian companies, each of which is engaged directly or through its affiliates in substantial active business operations in its country of residence, decide to cooperate in the development, production and marketing of an advanced passenger aircraft through a corporate joint venture with its statutory seat in Austria. The development, production and marketing aspects of the project are carried out by the individual joint venturers in their respective countries of residence. The joint venture company, which is staffed with a significant number of managerial and financial personnel seconded by the joint venturers, acts as the general headquarters for the joint venture, responsible for the overall management of the project including coordination of the functions separately performed by the individual joint venturers on behalf of the joint venture company, the investment of working capital contributed by the joint venturers and the financing of the project's additional capital requirements through public and private borrowings. The joint venture company derives portfolio investment income from U.S. sources. Is this income eligible for benefits under the U.S.-Austrian treaty?

Analysis: If the joint venture corporations's activities constitute an active business and the income is connected to that business, benefits would be allowed under subparagraph 1(c). If not, it is expected that the U.S. competent authority would determine that treaty benefits should be allowed in accordance with paragraph (2) under the facts presented, particularly in view of (i) the clear business purpose for the formation and location of the joint venture company; and (ii) the significant headquarters functions performed by that company in addition to financial functions.

International Economic Integration

It is understood that Austria's membership in the European Union (EU) will become an element in the determination under paragraph 2 of eligibility for benefits of Austrian companies with significant non-Austrian, but EU Member, ownership, or with significant business activities carried on in EU member States as well as in Austria. The special U.S. ties to Canada and Mexico under the North American Free Trade Agreement will have a similar impact on competent authority determinations under paragraph 2 with respect to Austrian benefits claimed by U.S. residents.

In addition to reflecting Austria's EU membership in competent authority determinations under paragraph 2, it is also understood that the United States and Austria will discuss whether a need exists to amend Article 16 to reflect the closer relationship between Austria and its EU partners. If such amendments appear desirable, a Protocol to this Convention will be promptly negotiated to reflect this understanding.

Re Article 17 (Treatment of orchestras)

Paragraph 1 of Article 17 relates only to individuals. Legal entities operating an orchestra (like associations, municipalities, and states) are, according to paragraph 1, not taxable in the country where such orchestra performs, although such entities may be subject to tax in the country of performance under paragraph 2 of this Article or under Article 7 (Business Profits). The individual musicians would be taxable there, but only if their annual remuneration received for the performances in the host state exceeded the threshold of 20,000 U.S. dollars. In the case of a monthly paid salary only that portion of the monthly pay may become taxable which is allocable to the days physically spent in the host country. If, however, a performance-related global payment is made, then the whole amount shall be taken into consideration without any deduction for periods of preparation spent outside the host state.

Re Article 18 (social security payments)

The term "social security payments" as used in this article is not restricted to old age pensions but refers to all sorts of social security benefits, e.g., also to benefits granted in kind and to payments made in compensation for work-related diseases or accidents. The term "other public pensions" as used in subparagraph 1(b) is intended to refer to tier 1 Railroad Retirement benefits.

Re Article 19 (coverage of personnel)

It is understood that an entity (e.g., an Embassy or Consulate) performing governmental functions within the meaning of Article 19 paragraph 1 is acting through all of its personnel; therefore, personnel engaged in activities such as driving and cleaning are to be considered as acting in the "discharge of governmental functions" and are thus covered by Article 19 paragraph 1.

Re Article 22 (Relief from Double Taxation), paragraph 1

It is understood that paragraph 1 of Article 22, which requires the United States to grant a foreign tax credit for Austrian taxes "in accordance with the provisions and subject to the limitations of the law of the United States", refers to the laws as of the date of entry into force of the treaty, as they may be subsequently amended. U.S. law contains rules designed to ensure that all taxpayers pay a certain minimum liability -- the Alternative Minimum Tax ("AMT"). Although the AMT may be reduced by foreign tax credits, such credits cannot reduce it to zero, but can offset only 90 percent of the AMT. It is agreed that this 90 percent AMT limitation is consistent with the general U.S. commitment to provide a foreign tax credit.

Re Article 22 (Relief from Double Taxation), paragraph 1

Calculation of dividend gross-up and the deemed-paid credit.

U.S. parent companies calculate their U.S. taxes based on the income received from certain of their foreign subsidiaries[1] plus the foreign taxes credited to this income.

Under U.S. law (Section 902 of the Internal Revenue Code), when a U.S. parent receives dividends from its Controlled Foreign Corporation (CFC), the taxes paid to the foreign government by the CFC are "deemed paid" by the U.S. parent. These deemed paid

[1] If a U.S. corporation owns ten percent or more of the voting stock of a foreign corporation from which it receives a dividend, it will be deemed to have paid the foreign income taxes paid by the subsidiary attributable to that dividend. The "deemed paid" (or "indirect") foreign tax credit extends to taxes paid on dividends distributed by second and third tier foreign corporations if the parent of each meets the ten percent voting stock requirement. But, for these lower tier subsidiaries, the U.S. parent must have an indirect ownership in such subsidiaries of at least five percent.

taxes are added to the direct foreign withholding taxes paid for purposes of calculating the foreign tax credit.

The deemed paid credit is calculated as the ratio of dividends received to after-tax foreign earnings multiplied by creditable foreign taxes, which usually only include income taxes but may in special cases include other taxes that are considered to be equivalent" to income taxes or to be paid "in lieu" of an income tax.

The deemed-paid credit is calculated as:

$$\textbf{Deemed-paid Credit} = \frac{\textbf{Dividends received}}{\textbf{After-tax net earnings and profits of foreign corporation}} \times \textbf{creditable foreign taxes}$$

The U.S. parent must "gross up" the dividend received from the foreign subsidiary by the amount of the foreign taxes deemed paid. The total grossed-up foreign dividend equals the actual dividend received plus the foreign taxes deemed paid on this dividend.

The total foreign tax credit allowed equals the sum of withholding taxes plus the deemed paid credit. The foreign tax credit is limited to the ratio of foreign-source taxable income to total worldwide taxable income multiplied by the U.S. tax liability. This approach allows an averaging of high and low foreign tax rates. Such averaging, however, can take place only within a single income basket. The Code provides for a number of baskets for various classes of income for purposes of calculating foreign tax credits (e.g., passive income, high withholding tax, and financial services income). Excess FTCs may be carried forward five years and backward two years.

When dividends paid by the CFC exceed current earnings, the excess of current dividends over current income is attributed to previous years' undistributed incomes in reverse order, last year first. Since 1986, firms are required to pool all post-1986 CFC earnings and foreign taxes to construct a multiple-year average foreign tax rate for purposes of calculating the indirect FTC. The pooling of earnings and profits is used only for determining the amount of the deemed foreign tax credit and is not used for other purposes.

Example: A U.S. parent has a wholly-owned Austrian subsidiary that pays out all of its income. Assume Austria imposes a 34 percent corporate income tax and a 5 percent dividend withholding tax. The U.S. taxes worldwide income at a 35 percent rate.

Pre-tax earnings of Austrian CFC	100.0
Austrian corporate income tax (34%)	34.0
Post-tax Austrian earnings	66.0
Dividend withholding tax (5%)	3.3
Foreign creditable tax	
Direct withholding tax	3.3
Deemed-paid credit for subsidiary's income tax	34.0
Creditable taxes	37.3
U.S. Income	
Dividend received	66.0
Austrian deemed-paid tax	34.0
Total grossed-up income	100.0
U.S. tax (35%)	35.0
Foreign tax credit	35.0
Net U.S. tax due	0

Re Article 23 (Treatment of losses incurred in Austrian PEs)

Article 23 paragraph 2 requires that losses incurred in an Austrian permanent establishment of a U.S. corporation must be granted a carry forward under the same conditions which would be applicable if that permanent establishment were one of an Austrian enterprise. In the latter case, losses can be carried forward over a period of 7 years to the extent that they cannot be offset against other income of that enterprise.

Re Article 23 (Distribution of appreciated property)

Under U.S. law, a U.S. corporation that is liquidated is taxed on the gain on the appreciated property it distributes. There is an exception in the case of property distributed to a U.S. parent corporation by a U.S. subsidiary controlled 80 percent or more by the parent, on the theory that the appreciation on that property will be taxable when the parent disposes of the asset. The exception does not apply when property is distributed to parent corporations that are tax-exempt, and generally it does not apply when property is distributed to foreign parent corporations, because the tax is deferred only if it can be collected on a subsequent distribution. As this distinction in tax treatment is not dependent on whether the stock is owned by foreign or U.S. persons, but on whether the recipients are subject to U.S. corporate tax, it is understood that this rule is not inconsistent with paragraph 5 of Article 23.

Re Article 23 (Partnership withholding)

U.S. law requires that a partnership that derives income effectively connected with a U.S. trade or business withhold 20 percent of distributions to foreign partners. Such withholding does not apply to distributions to U.S. partners. The withholding tax is not a final liability, but is a prepayment of tax which will be refunded to the extent that it exceeds the partner's liability. It is understood that this is a reasonable collection mechanism, not in conflict with Article 23.

Re Article 23 (S corporation election)

U.S. law permits a small corporation (35 or fewer individual shareholders) to elect to have its income taxed in the hands of the shareholders, rather than at the corporate level, as if it were a partnership. This election is available only if all the shareholders are U.S. citizens or residents, who are fully subject to U.S. tax at the individual level, so that, for example, they can take into account losses, deductions or credits. Nonresident aliens are not subject to U.S. tax on a net basis, and, therefore, do not qualify as S corporation shareholders. This election distinguishes between U.S. and foreign persons not on the basis of nationality, but because they are taxed differently. It is understood that this distinction is not in conflict with Article 23.

Re Article 24 (The nature of the mutual agreement procedure)

The mutual agreement procedure is not intended to create new treaty law but is fully governed by the provisions of the treaty and of internal legislation. One of its main purposes is to find a coordinated understanding of treaty provisions that leaves room for diverging interpretations. The mutual agreement procedure shall open the possibility to find an agreed position between the contracting parties as to which interpretation shall be given precedence in order to reflect best the real intention of the treaty.

Re Article 25 (Exchange of information)

The Contracting States agree that appropriate committees of the U.S. Congress and the U.S. General Accounting Office (GAO) shall be afforded access to the information exchanged under this treaty where such access is necessary to carry out their oversight responsibilities. Any information provided to these organizations shall be used only for such purposes. The effect of this understanding is to make clear that the treaty authorizes the Finance Committee, the Ways and Means Committee and the Joint Committee on Taxation, as well as the GAO, to have access to all information received under the treaty under the above-described conditions.

On the part of Austria under the same conditions disclosure of information to the Accounting Court (Rechnungshof) and to Committees of Parliament is permitted.

Re Article 25 (Judicial procedures)

It is understood that a request for administrative assistance duly presented by the competent authority and meeting the requirements as set out in Article 25 cannot be rejected by the requested State merely because the request was made for the purposes of pending judicial proceedings in tax matters.

Re Article 25 (penal investigations)

It is understood that the term "penal investigations" applies to proceedings carried out by either judicial or administrative bodies. For example, the commencement of a criminal investigation by the Criminal Investigation Division of the Internal Revenue Service constitutes a penal investigation.

Re Article 25 (bank secrecy)

On the basis of paragraph 19 of the OECD Commentary on Article 26 of the OECD Model Convention, it is agreed that provisions on bankers' discretion (bank secrecy rules) do not constitute a professional, trade, business, industrial, or commercial secret. This opinion is, inter alia, supported by German and Austrian jurisprudence (Decision of the German Bundesfinanzhof of 20 February 1979, VII R 1 6/78, BStBl. 11, 1979, 268 and Ruling of the Verwaltungsgerichtshof of 27 February 1992, 86/17/0169, (ÖStZB 1992, 580).

Re Article 25 (No recovery of penalties)

It is understood that the mutual assistance in the recovery of taxes includes interest but does not include the collection of fines or other penalties.

Re Article 25 ("Essential-interest-clause")

It is agreed that the "essential interest clause" can be invoked by a Contracting State if he or she is requested to recover a tax on behalf of the other Contracting State and if he or she denies that the tax in question is levied in accordance with the provisions of this Convention.

Re Article 25 (Ambulatory application of the Article)

It is understood that for purposes of this Article the requested State shall be obligated to obtain the requested information according to its procedures at the time of the request.

Re Article 25 (Mutual assistance) and Article 28 (Entry into Force)

It is understood that the mutual assistance article (Article 25) does not allocate taxation rights; it is therefore not confined to taxes levied, or to information coming into existence, after the date referred to in the second sentence of paragraph 2 of Article 28.

Monthly Report
by the
Secretary of the Treasury

THE DEPARTMENT OF THE TREASURY
1789

Pursuant to the
Mexican Debt Disclosure Act
of 1995

May 1996

Treasury Secretary's Report to Congress
May 1996

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I. Overview

Mexico's strong economic policy fundamentals and the U.S.-led international financial support package have continued to produce encouraging results. Data indicate that an economic recovery is underway in Mexico. GDP rose by 2.2% from the fourth quarter of 1995 to the first quarter of this year, following an 2.3% increase from the third to the fourth quarter in 1995 and a 2.8% increase from the second to the third quarter (all seasonally adjusted). Exports have remained strong, and other data also suggest some revival in domestic demand from the deep recession of 1995.

Mexico recorded a trade surplus of $731 million in April (preliminary data), even as total imports have increased by 43.7% compared to the same period last year, and by 17.6% compared to 1994. Indeed, Mexican imports in the first four months of this year were higher than for the same period in any previous year. Similarly, U.S. exports to Mexico in the first quarter of 1996 were the highest ever recorded for this period of the year.

Monetary policy remains tight. Monthly inflation nevertheless rose to 2.8% in April, fueled by anticipated increases in some public prices and the minimum wage, after having been on a downward trajectory for the first three months of this year. Prices increased by 0.95% in the first half of May, a drop from biweekly inflation of 1.8% in the first half of April. Interest rates continued to fall: rates on the benchmark 28-day cetes dropped to 25.6% in the May 28 auction, down from 31.9% in the April 23 auction.

With improving economic fundamentals, the peso further appreciated in May, despite falling domestic interest rates. Mexico's stock market also moved to record highs in peso terms, up 4% from the end of April through May 28, and 42% above pre-crisis levels, though down 33% in dollar terms. As of May 17, international reserves have risen to $16.0 billion from the year-end 1994 level of $6.1 billion, and are up slightly from year-end 1995.

This month, Mexico exchanged $2.4 billion (face value) in Brady Bonds for a new, 30-year sovereign bond, setting a new benchmark for Mexico's foreign currency debt. The Mexican government and its agencies have raised over $6 billion in private market financing thus far in 1996.

While financial markets continue to rally, the situation of Mexico's banking system remains difficult. The level of nonperforming loans remains high, though preliminary data indicate some decline in March. The banking sector continues to be restructured. Serfin and Bancrecer announced plans for a second-round of FOBAPROA-assisted recapitalization; Confia, Mexico's tenth largest bank, has been recapitalized. This month, the government also intervened two more smaller banks and announced a new program to aid mortgage debtors.

Mexico has met all of its payment obligations under the U.S. financial support program. So far, it has repaid a net total of $2 billion in outstanding short-term swaps to the Treasury and Federal Reserve, and made interest payments totalling $988 million.

As of May 31, $10.5 billion will remain outstanding, all in the form of medium-term swaps, with no further principal repayments due until June 30, 1997. All of Mexico's obligations to the United States under the February 21, 1995 Agreements are backed by proceeds from Mexico's crude oil, oil products, and petrochemical product exports. Payments for these exports flow through a special account at the Federal Reserve Bank of New York. As of May 15, approximately $10.5 billion had passed through this account.

II. Current Condition of Mexico's Economy

a. Economic Developments

An economic recovery continued in the first quarter of 1996

Economic data indicate that a recovery is underway following the sharp contraction in the first half of 1995. In the first quarter of 1996, GDP rose 2.2% on a seasonally adjusted basis, the third consecutive quarterly increase.

- On a year-over-year basis, GDP fell by 1.0%, the smallest decline since the first quarter of 1995. This decline was less than had been expected by private analysts and the Government of Mexico.

It should be noted that there has been a change in GDP accounting methodology. The base year was shifted from 1980 to 1993, and the measurement of goods and services was enhanced to reflect more accurately the current structure of the economy. Consequently, the composition of GDP has changed, and quarter-over-quarter and year-over-year comparisons may be affected.

- Private analysts have reported that first quarter GDP would have declined by 1.5% on a year-over-year basis using the old methodology.

The tradeable goods sector, the economy's most dynamic sector since the crisis began, was up 3.5% on a year-over-year basis, with strong gains in manufacturing (+4.2%) and mining (+6.2%).

In contrast, output in the non-tradeable goods sector of the economy fell by 2.6% (year-over-year). While there has been some recovery in this domestic demand-sensitive sector, gains have been uneven.

- For example, construction fell 6.8%, while transport and communications increased by 1.1% (both on a year-over-year basis).

Available data suggest that the recovery is continuing in the second quarter.

The economy is showing strong external performance, with some recovery in domestic demand, though monthly indicators are volatile.

- Preliminary data show Mexico's trade balance remaining strongly in surplus in April, registering a $731 million surplus, the highest level in seven months.

  -- Exports were at an all-time high in April, up 32.4% on a year-over-year basis, and 5.7% above March.

  -- Imports were up by 43.7% on a year-over-year basis, and 4.4% above March, to their highest level since November 1994.

  -- For the first four months of 1996, the trade surplus was $2.6 billion, considerably higher than the $1.5 billion registered for the same period in 1995, and slightly higher than the $2.5 billion surplus registered in the preceding four-month period.

- Some indicators sensitive to domestic demand showed gains in April.

  -- Consumer imports rose 1.3% in April over March, the seventh monthly increase in the last nine months. April consumer imports were 54% higher than their July, 1995 low, though they remain 35% below the pre-crisis level.

  -- However, domestic vehicle sales fell by 13.0% in April, the second decline in the last nine months, after rising 7.6% in March. April sales remain about half of their pre-crisis level, but are over 100% higher than a year ago.

- Labor markets remained steady.

  -- The open unemployment rate, a narrow rate of joblessness in the urban formal sector, fell slightly, from 6.0% in March to 5.9% in April (preliminary data). Last year, the rate peaked at 7.6% in August 1995, but dropped to 5.5% in December.

  -- However, adding the number of employees who involuntarily work less than 35 hours a week, a measure of under-employment, the rate rose slightly from 7.9% in March to 8.1% in April. This compares to a peak of 10.4% in August 1995.

  -- The number of permanent workers registered in the social security system (IMSS), a measure of employment in the formal economy, rose by 0.5% in April compared to March; this was the sixth increase in the last eight months. The number of registered workers is now higher than before the crisis.

While uncertainties lurk, Mexico's economy is projected to grow in 1996

- In a April survey by *Consensus Economics*, private analysts revised upward their forecast of GDP, projecting 2.3% growth in 1996. This is up from 2.0% in the December survey and 2.2% in February's survey. The Mexican Government, in its November budget presentation, projected 3% GDP growth for 1996.

II. b. Monetary and Fiscal Policy

Monetary aggregates indicate policy remains tight...

- In 1996 through May 17, net domestic credit (NDA), the monetary base less international reserves, fell by about P20 billion. Net international reserves (NIR) increased by P12.6 billion during the same period.

- Through May 17, base money fell about 11% to P59.4 billion pesos.

- M1 (the monetary base plus checking deposits) grew by only 0.6% in April.

and market indicators also suggest that confidence is returning.

- The May 28 primary auction resulted in a yield of 25.6% on an annualized basis for 28-day *cetes*. This was down from the April 23 auction rate of 31.9%. The fall in nominal rates was reportedly due primarily to the better-than-expected April and early-May inflation results, as well as optimistic market expectations for inflation over the next three months.

  -- Inflation in April was 2.8%, below the market consensus forecast of 3% but higher than the 2.2% increase in March owing to public price and minimum wage increases that went into effect on April 1.

  -- For the first two weeks in May, prices rose by 0.95%, well below the 1.8% biweekly inflation for the first half of April.

- The real exchange rate has appreciated 1.8% from the end of April to May 28, and roughly 16% since the beginning of 1996. At its current real level, it is still about 24% below its pre-devaluation level (of November 1994).

Mexico's fiscal stance remains strong...

Mexico's 1996 budget (annual public sector non-financial balance) is targeted to be balanced for the year. The 1996 target for the primary balance is a surplus equal to 4.0% of GDP.

- Mexico achieved a first quarter budget surplus of P1.5 billion; this compares to a targeted P6.4 billion deficit. The primary surplus, at P26.6 billion, also exceeded its target by a P8 billion margin.

with tight public sector spending...

Total public sector expenditures, adjusted for inflation, were 3.5% lower in the first quarter than the same period in 1995.

- Programmed spending by the public sector during the first quarter was held constant, in real terms, compared to the same period in 1995.

- Interest costs on the public debt declined by 5.7% in real terms during the first quarter, compared to the same period last year.

despite declines in public sector revenues.

Total public sector revenues, adjusted for inflation, were 9% lower in the first quarter, compared to the same period in 1995.

- PEMEX revenues and Federal taxes paid by PEMEX, which accounted for over 35% of public sector revenues in 1995, were up just 4% in real terms during the first quarter, compared to the same period last year.

- Non-oil revenues (including federal taxes) revenues remained depressed during the first quarter, declining by 15.7% compared to the same period last year.

Table 1: Fiscal Balances

Part A: Federal Government Budget	1995	1996	Real Chg(1)
NP Millions (Nominal)	Q1	Q1	96-Q1
Revenues	57,827	81,561	-4.7%
% of GDP (2)	16.7%	14.6%	
Taxes	40,391	52,360	-12.4%
Income Tax	19,002	21,512	-23.5%
Value Added Tax	9,582	16,341	15.2%
Excise Taxes (Oil, Alcohol, Tobacco, etc)	6,201	7,442	-18.9%
Import Duties	2,738	3,308	-18.4%
Other (Auto Registration, Tax Penalties, Export)	2,868	3,757	-11.5%
Non-Tax Income	17,436	29,201	13.2%
Fees			
Oil	11,399	21,768	29.0%
Other	1,220	1,586	-12.2%
Other (Central Bank Profits, Privatization)	4,817	5,847	-18.0%
Expenditures	53,225	80,719	2.5%
% of GDP (2)	15.4%	14.5%	
Discretionary	27,188	41,099	2.1%
% of GDP (2)	7.9%	7.4%	
Operating Expenses	9,163	11,667	-14.0%
Salaries	7,013	9,193	-11.4%
Other	2,150	2,474	-22.3%
Public Investment	813	2,642	119.6%
Assistance Programs	nd	520	na
Subsidy Programs	nd	4,616	na
Transfers	17,212	21,654	-15.0%
Non-Discretionary	26,037	39,620	2.8%
% of GDP (2)	7.5%	7.1%	
Outlays From Past Year's Obligations	2,602	4,110	6.7%
Revenue Sharing	11,137	15,599	-5.4%
Interest Payments	12,298	19,911	9.4%
Transfers To State Enterprises, Errors & Omissions	4,235	3,900	-37.8%

Part B: Public Sector Aggregates	1995	1996	Real Chg(1)
NP Millions (Nominal)	Q1	Q1	96-Q1
Non-interest Spending	67,594	97,068	-3.0%
% of GDP (2)	19.5%	17.4%	
Interest Payments	16,795	23,432	-5.7%
% of GDP (2)	4.9%	4.2%	
Pemex Revenues + Pemex Taxes Paid to GOM	30,215	46,584	4.2%
% of GDP (2)	8.7%	8.4%	
Non-Petroleum Revenues	60,866	75,922	-15.7%
% of GDP (2)	17.6%	13.6%	
Total Revenues	91,081	122,506	-9.1%
% of GDP (2)	26.3%	22.0%	

Part C: Public Sector Balances	1995	1996
NP Millions (Nominal)	Q1	Q1
Federal Government Budget Balance	367	(3,057)
% of GDP (2)	0.1%	-0.5%
Federal Government Primary Balance	12,665	16,854
% of GDP (2)	3.7%	3.0%
Public Sector Non-Financial Balance	11,038	1,501
% of GDP (2)	3.2%	0.3%
Public Sector Primary Balance	24,801	26,622
% of GDP (2)	7.2%	4.8%

(1) Real change from previous year based on a year-over-year increase in the CPI of 48%

(2) Based on first quarter nominal GDP released by the Government of Mexico

II. c. Structural Reforms and Financial Sector Developments

Telecommunications fees set

In late April, the Communications and Transportation Ministry (SCT) announced new long distance interconnection fees.

- Mexico's seven new telephone companies will pay Telefonos de Mexico (Telmex) an average of 5.32 cents a minute during 1997 for long-distance calls. This rate will fall to 3.15 cents by 1999.

- The rates, set by SCT, were above the 2 cents requested by the new providers, but far below the 15 cents requested by Telmex.

Power plant projects proceed

On May 3, a group of U.S. and Mexican companies, led by General Electric, El Paso Energy, InterGen, and ICA/Fluor Daniel, announced financing plans for the $647 million, 700 megawatt Samalayuca II power plant.

- The group, which invested $132 million in the project, will receive a commercial bank construction loan with cofinancing from the Inter-American Development Bank.

- Upon completion of construction, the commercial bank loan will be replaced with a long-term U.S. Export-Import Bank credit.

On May 9, the Energy Ministry announced that it was opening registration for construction and operation of five new power plants.

- The plants - three of which are located in Baja California, one in Chihuahua and one in Monterrey - will have total production capacity of 1,600 megawatts.

The banking system continues to be restructured

- Serfin has announced a second recapitalization with FOBAPROA assistance (the first occurred in June 1995). The bank will receive a capital injection of $1.3 billion, and another $2.6 billion in loans will be sold to FOBAPROA. Approximately one-half of the capital injection will take place during the second quarter of 1996.

In addition, Grupo Serfin is (*i*) planning the sale of ownership interests in its insurance and bonding subsidiaries; (*ii*) offering a minority interest in Serfin to a foreign financial institutional investor; (*iii*) reorganizing the Group's management; and (*iv*) establishing a 100% provisioning requirement for its nonperforming loans.

- Bancrecer, Mexico's eighth largest bank, has also announced a second round of FOBAPROA-assisted recapitalization. The bank plans to raise $270 million in additional capital, sell approximately twice that amount in loans to FOBAPROA, and seek a strategic minority investor.

- Confia, Mexico's tenth largest bank with total assets of P28 billion as of year-end 1995, has been recapitalized.

- Also in May, the National Banking and Securities Commission (CNBV) intervened two smaller banks, Sureste and Capital. These banks had combined total assets of P3 billion as of year-end 1995.

Government program to aid mortgage debtors introduced.

On May 16, the government announced a new program to aid mortgage debtors. The program increases to P100 billion the amount of Investment Units (UDIs) allocated to restructuring mortgages.

- Under the program, debtors will receive interest rate subsidies starting at 30% of the interest due in 1996, and will continue to receive subsidies, on a declining scale, through 2005. The subsidy applies only to a maximum outstanding of 500,000 UDIs, and the program will apply to loans that are current or are made current. It is anticipated that some 900,000 mortgage debtors will participate in this program.

- The government estimates that this new debt relief program will cost it P27 billion, to be spread out over 30 years, or 1.2% of 1996 GDP in present value terms. The program will cost banks an additional P15 billion.

Financial asset quality remains a concern.

As a result of loan restructuring and sales to FOBAPROA, the level of nonperforming loans (excluding portfolios of intervened banks) rose slightly to approximately 8% as of the end of February. Including the intervened banks, nonperforming loans were 13.4% as of that time.

- The level of nonperforming loans for the entire banking system, plus loans sold to FOBAPROA, remained at about 18% of total loans from late 1995 though the end of February.
- Preliminary data indicate that all of these measures of nonperforming loans declined in March.

In a recent speech, Hacienda Secretary Ortiz reported that preliminary end-of-quarter data reflect a 7.4% nonperforming level for the banking system (excluding intervened banks).

Mexico has increased the breadth and frequency of its reporting.

The move towards utilization of internationally-accepted accounting standards in the banking industry is illustrative of moves to increase transparency and disclosure of information. Public disclosure of financial data by the Mexican government and the Bank of Mexico has increased substantially since 1994.

- Mexico has improved the coverage and timing of its reporting on both real and financial indicators, including data on output, inflation, international reserves, balance of payments, fiscal and monetary aggregates, public debt and foreign direct investment. The government and the Bank of Mexico now provide a wide set of historical and current data on the Internet.[1]

[1] Financial data from the Mexican government can be found at *http://www.shcp.gob.mx/english/* and from the Bank of Mexico at *http:// www.quicklink.com/mexico/mb/banxico.htm*. This Monthly Report is also available at *http://www.ustreas.gov/treasury/mexico/toc.html*.

II. d. Financial Markets and International Reserves

- The peso was stable during May, closing at 7.40 on May 28, a slight appreciation from its April 30 close of 7.42, though 10.2% above its low of P8.14 in November 1995.

- As of May 28, Mexico's stock market, in peso terms, was up 4.0% since the end of April, up 42% over pre-crisis levels, and up 129% since February 1995 lows.

  -- In dollar terms, the Bolsa index is down 33% from pre-crisis levels, but up 86% from its February 1995 lows.

- Primary interest rates decreased for the seventh consecutive week to 25.58% on an annualized basis in the May 28 auction of 28-day *cetes*, the benchmark government security, down from 31.6% in the April 29 auction.

  -- In the secondary market, the overnight *cetes* rate was 26.5% as of May 28, down from 28.5% on April 30; the 28-day *cetes* rate was 25.5%, down from 31.0%.

  -- At the May 28 auction, Mexico issued 3-year, inflation-indexed bonds that will pay a fixed real interest rate of 7.13%. Demand was over six times greater than the 150 million in UDI-denominated bonds offered.

- The Mexican Brady Par Bond interest rate spread over U.S. Treasuries, adjusted to remove the effect of partial collateralization, has risen from 5.94% on April 30 to 6.36% on May 28. This is about thirteen percentage points below the 19.37% spread reached in March 1995.

Mexico continues to attract international capital

The Mexican government and its agencies have raised over $6.0 billion in the international capital markets since the beginning of this year.

- On May 7, Mexico settled its exchange of $1.75 billion of 30-year uncollateralized dollar global bonds for roughly $2.4 billion (face value) in Brady Bonds.

-- The new sovereign fixed-rate issue has a coupon of 11.5%, and was priced to yield a spread of 552 basis points over U.S. Treasuries. As of May 28, the new issue is trading in the secondary market at 544 basis points over the Treasury bond of comparable maturity.

Table 2. Mexican public-sector note and bond issuances, 1996

Issuer	Type	Date[1]	Amount (US$ M)	Tenor	Interest rate
Bancomext	CP[2]	January 10	$300	180 days	LIBOR + 2.5%[3]
	FRN[4]	April 11	DM300 million ($203)	3 years	LIBOR + 3.25%
	Eurobond	May 30	$250	10 years	11.25%
Nafinsa	Eurobond	January 25	$100	3 years	9%
	Private Placement	February 14	¥1.4 billion ($13)	10 years	7%
	EMTN[5]	February 26	R250 million[6] ($68)	3 years	17%
Pemex	Eurobond	April 2	L300 billion ($193)	2 years	12.25%
United Mexican States	Eurobond	January 29	DM1.5 billion ($1,040)	7 years	10.375%
	Global Bond	February 6	$1,000	5 years	9.75%
	Samurai Bond	March 28	¥40 billion ($377)	6 years	6%
	Global Bond	May 7	$1,750	30 years	11.5%
	Samurai Bond	launch May 15, to settle June 6	¥100 billion ($945)	10 years	6.75%

[1] Date of settlement unless otherwise noted.
[2] Commercial Paper.
[3] Discount to yield.
[4] Floating rate note.
[5] Euro-medium term note.
[6] South African Rand.

On May 15, Mexico launched in the Japanese market a ¥100 billion (approximately $945 million) issue of 10-year "Samurai" bonds with a coupon of 6.75%, equivalent to 410 basis points over U.S. Treasuries.

- According to the Mexican government, the proceeds of this issue, to be settled June 6, will be used to refinance most of last year's $1.5 billion dual currency, *cetes*-linked note, which matures in November.

On May 22, Bancomext, the state-owned export finance bank, launched a $250 million, ten-year bond issue. The bond has a 11.25% coupon and was priced to yield 470 basis points over the U.S. Treasury note of comparable maturity

As of May 24, international reserves were $16.0 billion, according to the Bank of Mexico (BoM) definition, up $375 million from the end of April, and $266 million above the end of last year.

- According to the IMF definition, net reserves on May 24 were $1.7 billion, $389 millicn above the level at the end of April.

Aggregate reserves remain in line with several measures of reserve adequacy.

- Reserves equal more than three months of anticipated *non-maquiladora* imports.
- Reserves are approximately equal to calendar year 1996 amortizations of external public sector debt for the government of Mexico and its agencies.

Table 3. Net International Reserves

At End of Period	Bank of Mexico definition (US$ billions)
1992	18.6
1993	24.5
1994	6.1
Q1 1995	6.9
Q2 1995	10.1
Q3 1995	14.7
Q4 1995	15.7
Q1 1996	15.5
April 30, 1996	15.6
May 24, 1996	16.0

III. Disbursements, Swaps, Guarantees and Compensation to the U.S. Treasury

As of May 31, 1996, $10.5 billion remain outstanding under the U.S. support program, all in the form of medium-term swaps. No further principal payments are due until June 30, 1997. (See Table 3, over, for the amortization schedule of outstanding swaps.)

- The outstanding total reflects full repayment by Mexico of $3 billion in short-term swaps: $1 billion on March 14, 1995; $700 million on October 11, 1995; and $1.3 billion on January 29, 1996.

A total of $13.5 billion in U.S. funds has been disbursed to Mexico under the support program: $3 billion in short-term swaps and $10.5 billion in medium-term swaps. (Swap arrangements are described in December 1995 Semi-Annual Report.) Of this total, no more than $12.5 billion has been outstanding at any one time. The United States has not extended any securities guarantees to Mexico under the support program.

Mexico has not missed any interest payments or required principal repayments under any of the swaps.

- To date, the United States has received $988 million dollars in interest payments from Mexico: the Exchange Stabilization Fund (ESF) has received $934 million for short- and medium-term swaps and the Federal Reserve received $54 million on its short-term swaps with Mexico.

IV. Mexico's Financial Transactions

In accordance with the February 21, 1995 Agreements, Mexico has requested, and Treasury has authorized, the use of the funds disbursed to date to redeem *tesobonos* and other short-term, dollar-denominated debt of the Mexican government and its agencies. All funds have been used to redeem *tesobonos*, which are now fully retired.

Table 4. Amortization Schedule of ESF and Federal Reserve Swaps with Mexico

	Amount	*Repayments to date (bold); Scheduled Repayment for outstanding balance (US$ million)*							*Due (US$ million)*	
	Disbursed	**Short-term swaps* provided on:**			**Medium-term swaps provided on:**				**Quarterly**	**Annually******
	(U.S. Millions)	**01/11/95**	**01/13/95**	**02/02/95*****	**03/14/95**	**04/19/95**	**05/19/95**	**07/05/95**		
	13,500	500	500	2,000	3,000	3,000	2,000	2,500	10,500	10,500
Quarter		Current Interest Rate:								
Ending		n/a	n/a	n/a	7.40%	10.16%	10.16%	9.20%		
Mar-31-95	6,000	**500 (Mar 14)**	**500 (Mar 14)**							
Jun-30-95	5,000									
Sep-30-95	2,500									
Dec-31-95				**700 (Oct 11)**						
Mar-31-96				**1,300 (Jan 29)**	0	0	0	0		
Jun-30-96					0	0	0	0		
Sep-30-96					0	0	0	0		
Dec-31-96					0	0	0	0		
Mar-31-97					0	0	0	0		
Jun-30-97					0	245**	170**	0	415	
Sep-30-97					0	245	170	205**	620	
Dec-31-97					0	245	170	205	620	1,655
Mar-31-98					0	245	170	205	620	
Jun-30-98					375**	245	170	205	995	
Sep-30-98					375	245	170	205	995	
Dec-31-98					375	245	170	205	995	3,605
Mar-31-99					375	245	170	205	995	
Jun-30-99					375	245	170	205	995	
Sep-30-99					375	245	170	205	995	
Dec-31-99					750	245	170	205	1,370	4,355
Mar-31-2000					0	305	130	205	640	
Jun-30-2000					0	0	0	245	245	
Sep-30-2000					0	0	0	0	0	
Dec-31-2000					0	0	0	0	0	885

* Short-term swap totals for each period represent equivalent amounts for ESF and Federal Reserve.

**All medium-term swaps payments are due on last date in each calendar quarter.

***$2 billion in short term swaps disbursed on February 2, 1995 were rolled over for an additional 90 day period on May 3, 1995, and August 1, 1995, for a new maturity date of October 30, 1995. On October 11, Mexico repaid $700 million of these obligations. The outstanding $1.3 billion was rolled over for an additional 90 day period on October 30, for a new maturity date of January 29, 1996, when they were repaid.

**** This column represents the sum of quarterly payments in a given year; it does not represent an additional payment.

V. Status of the Oil Facility

The payment mechanism, established under the Oil Proceeds Facility Agreement, continues to function smoothly. This has been confirmed by independent reviews (in August 1995 and February 1996).

In each review, Petroleos Mexicanos' (PEMEX) independent public auditors, Coopers & Lybrand, analyzed the information utilized for the previous two quarterly export reports prepared by PEMEX and provided to the U.S. Treasury pursuant to the Oil Proceeds Facility Agreement. According to their reviews, the quarterly reports "fairly present" information related to both PEMEX's oil exports and the collection of proceeds from such exports. The next semi-annual review is expected in August.

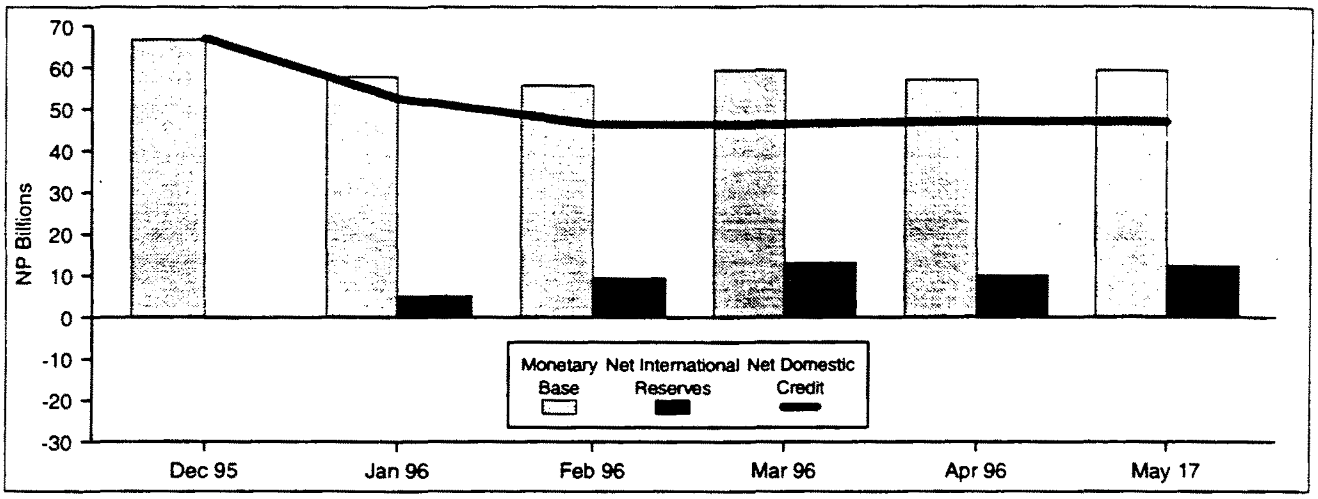
Payments through the Federal Reserve Bank of New York account

As of May 15, approximately $10.5 billion had flowed through Mexico's special funds account at the Federal Reserve Bank of New York since the oil agreement went into effect in early March 1995. To date, there have been no set-offs against the proceeds from Mexico's crude oil, petrochemical, and refined product exports.

Graphs

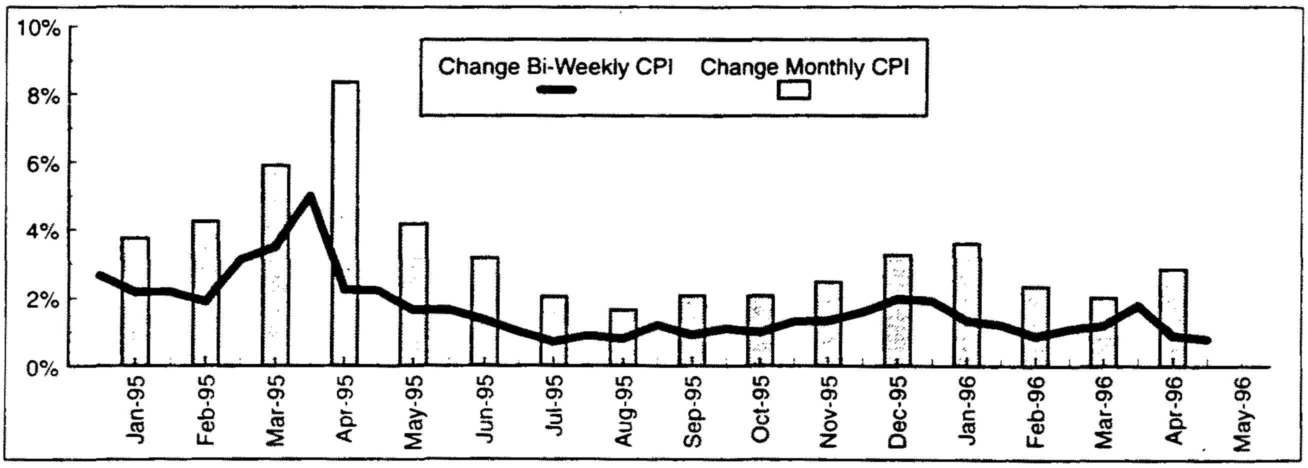
Mexico's stabilization policies are working.

- **Net domestic credit remains tightly controlled in 1996.***

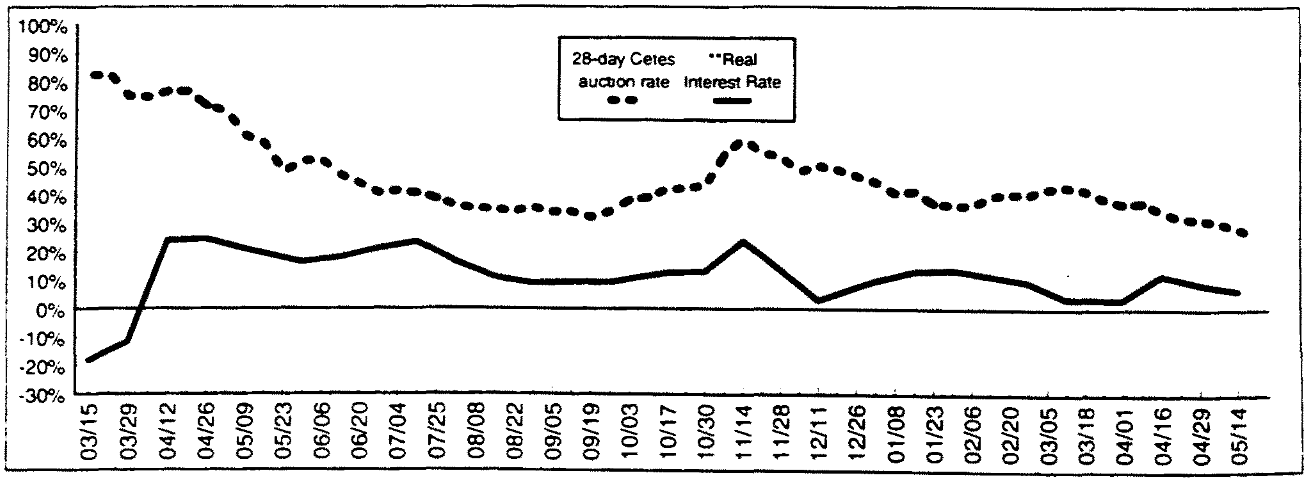


* Beginning in 1996, the BOM now reports NIR inclusive of IMF liabilities. This accounting change has the effect of reducing NIR and increasing NDA. Base money is unchanged by this accounting adjustment.

- **Inflation is well below its April 1995 peak**



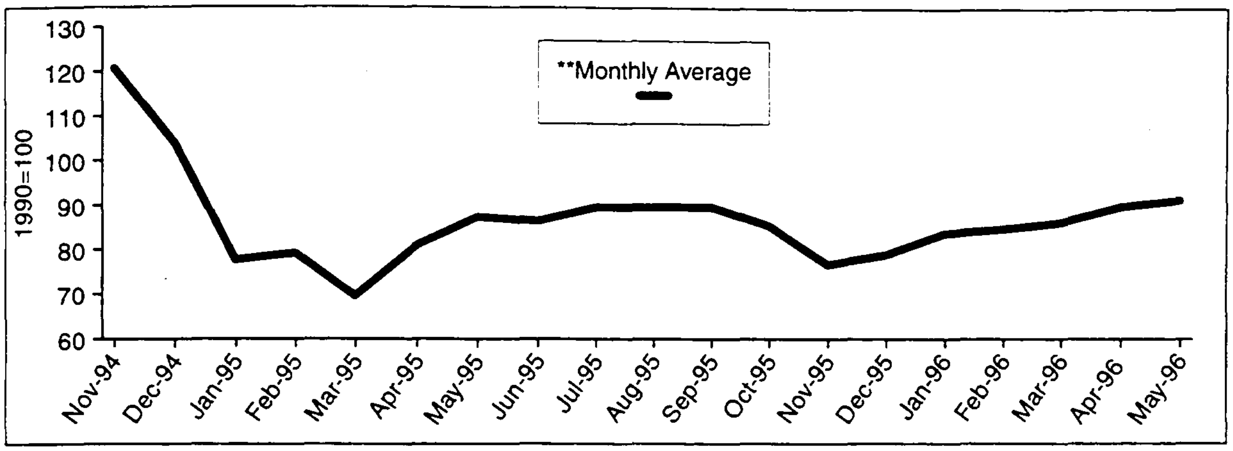
- **Nominal interest rates are trending down.**



**real interest rate for 5/14 is an estimate

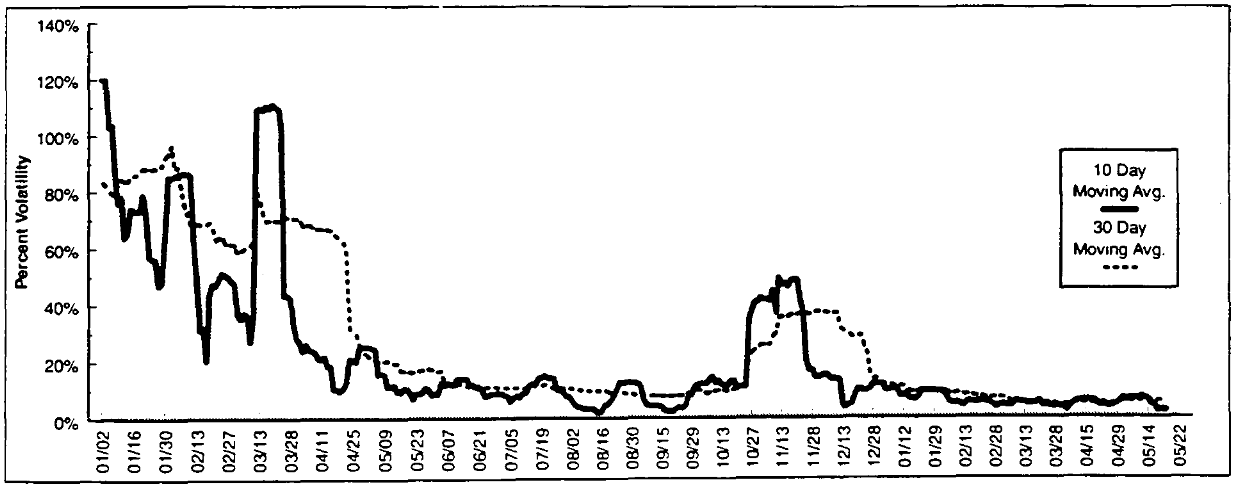
Mexico's financial markets have improved since the height of the crisis.

- The real exchange rate is down 29% from November 1995, but is 24% above its 1995 low.

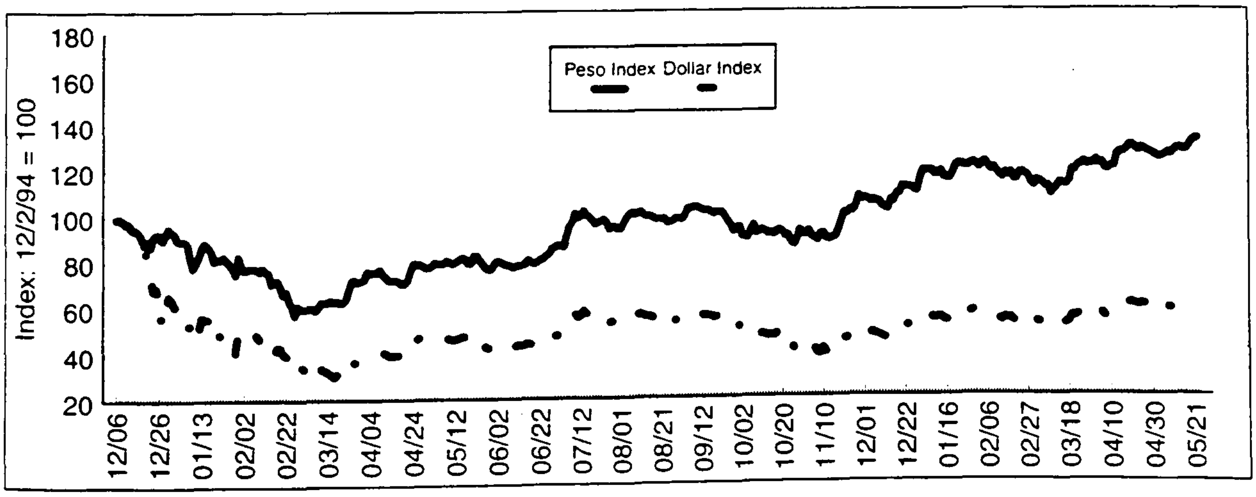


**exchange rate for May 1996 is an estimate

- Peso volatility has decreased.

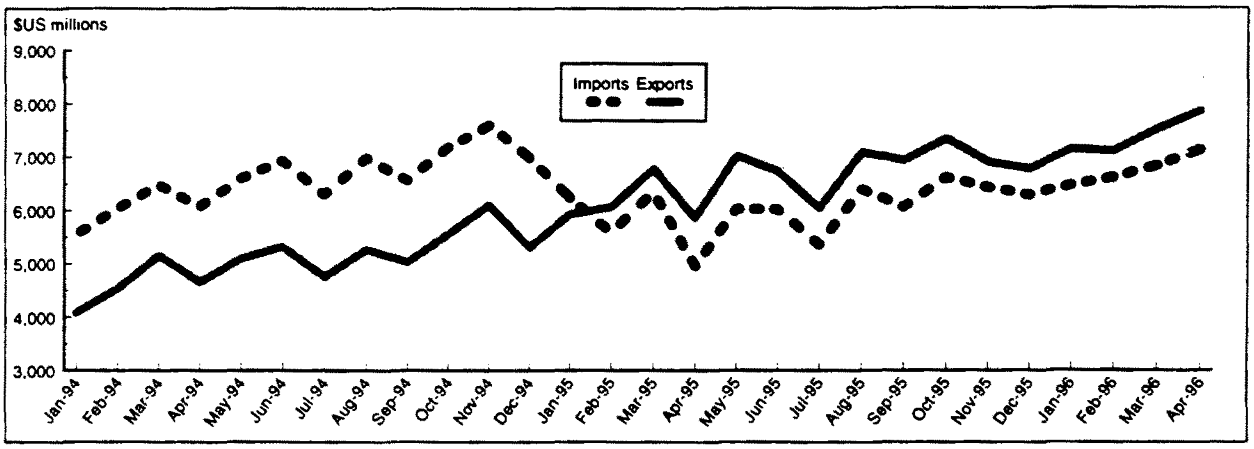


- Mexico's stock market is above its pre-crisis levels in peso terms.

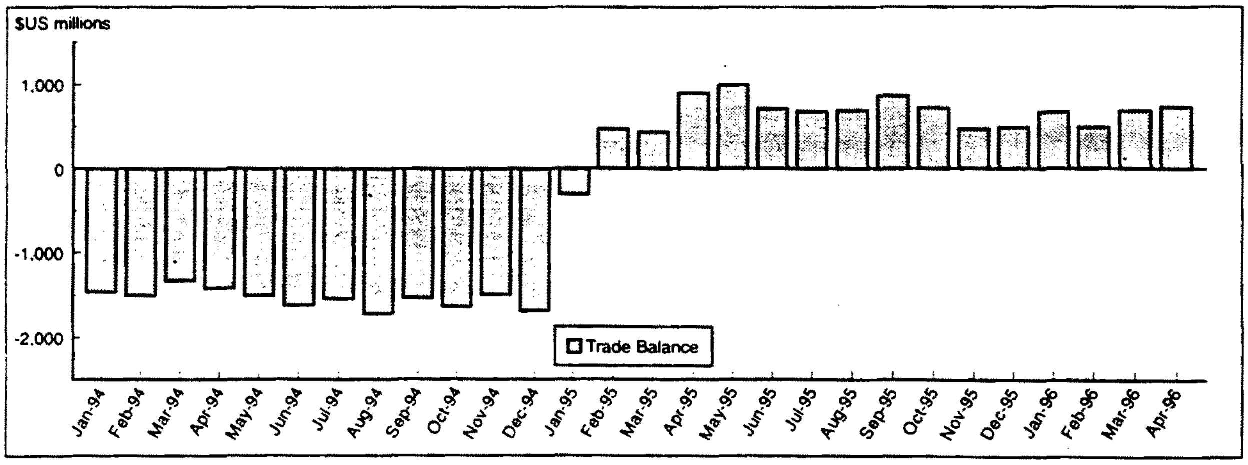


Mexico's level of imports has risen since April 1995 but a trade surplus persists

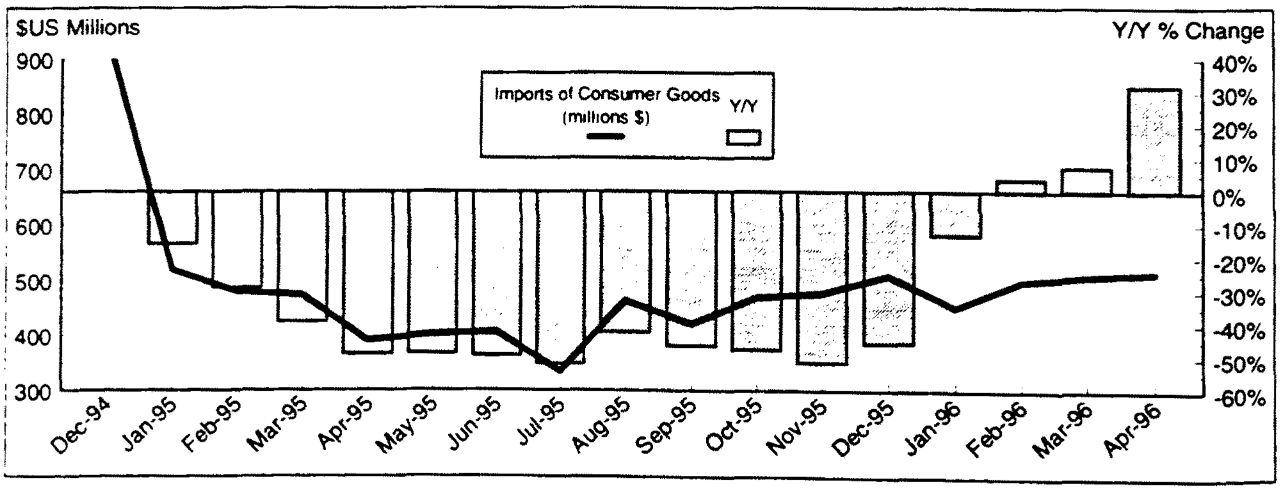
- **Imports and Exports.**



- **Trade Balance.**

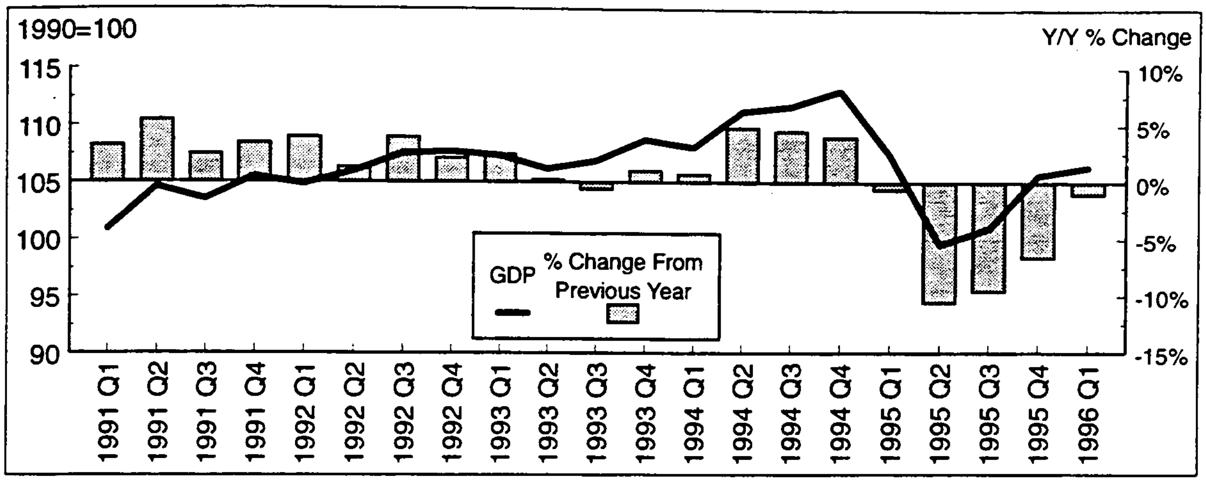


- **Imports of Consumer Goods.**



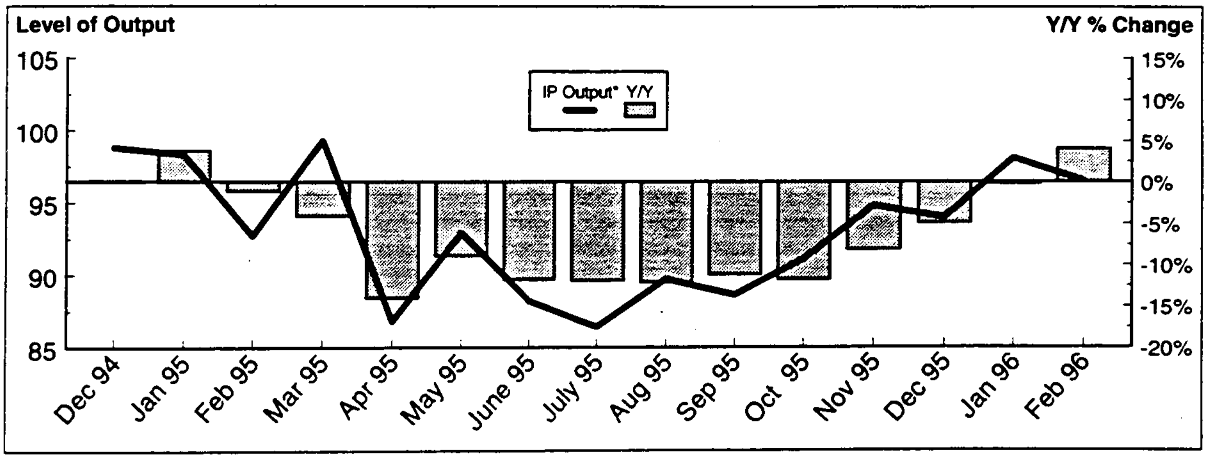
A recovery is underway, after a sharp contraction in 1995.....

- **GDP.**



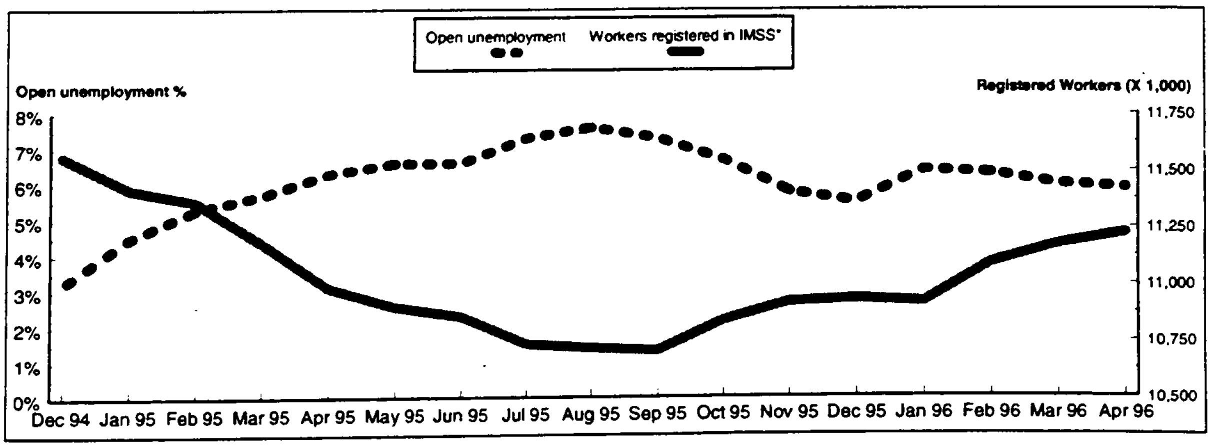
**Quarterly figures seasonally adjusted by J.P. Morgan.*

- **Industrial output.**



** Output is indexed by Inegi: 1994 = 100*

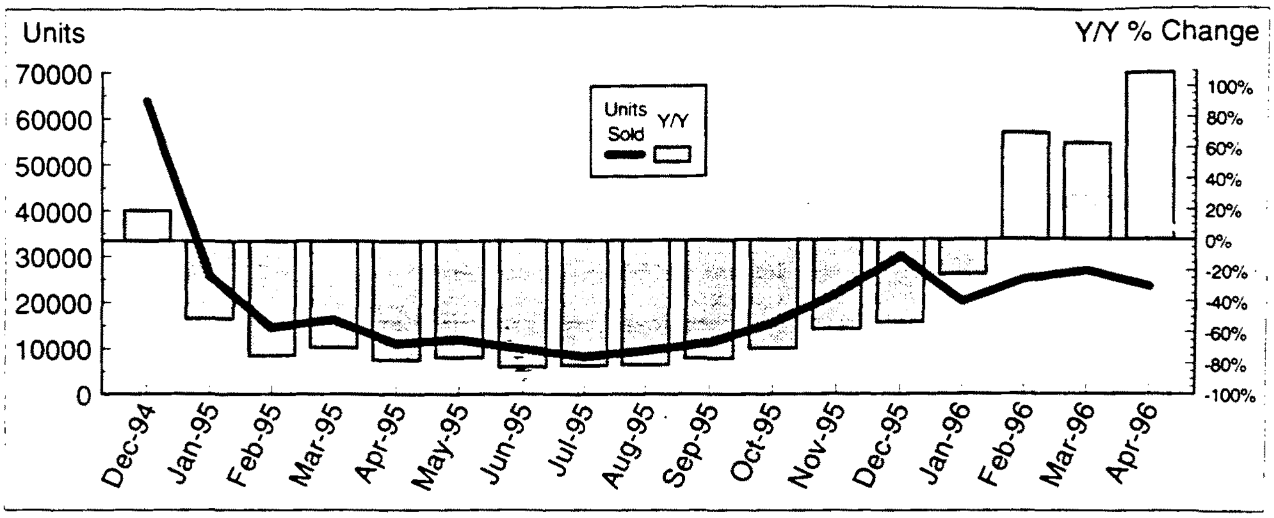
- **Employment and Unemployment.**



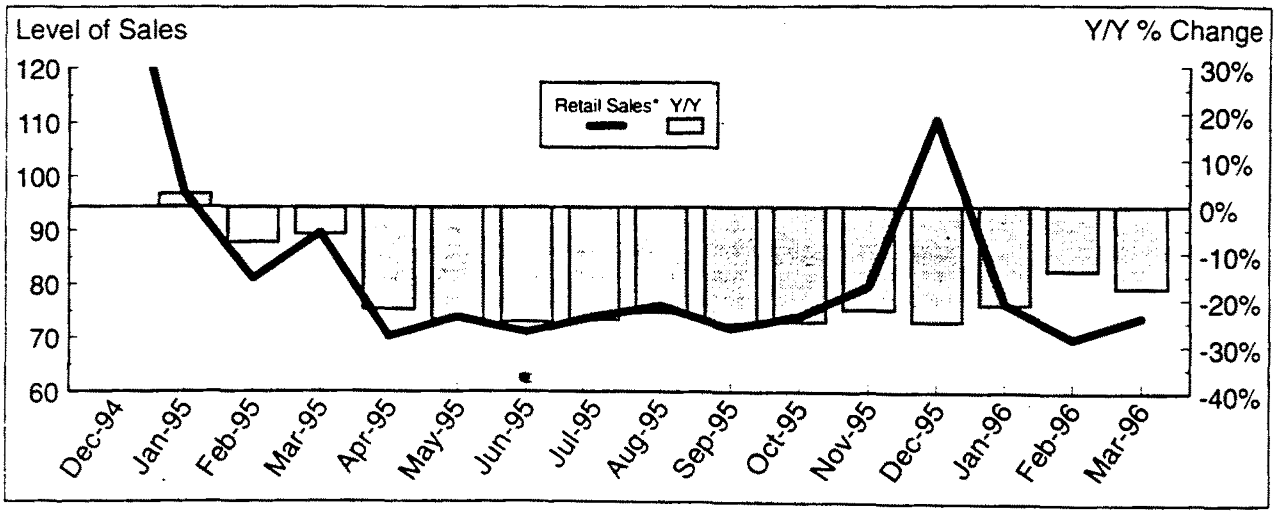
**Social Security System.*

.....though monthly indicators are volatile

- **Vehicle Sales.**

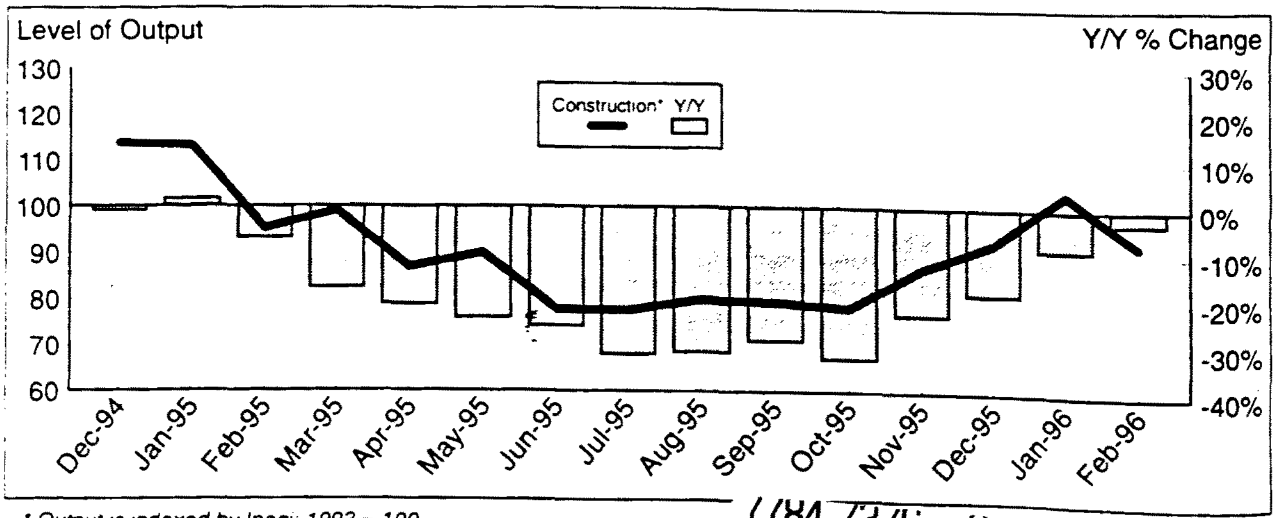


- **Retail Sales.**



**Sales level is indexed by Inegi: 1994 = 100*

- **Construction.**



** Output is indexed by Inegi: 1993 = 100*

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