

Treas.

HJ

10

.A13P4

v.271

**LIBRARY**  
**ROOM 5030**

**JUL 11 1986**

**TREASURY DEPARTMENT**

ireas.  
HJ  
10  
.A13P4  
v. 271

U.S. Dept. of the Treasury  
PRESS RELEASES.

**LIBRARY**  
**ROOM 5030**  
**JUL 11 1986**  
**TREASURY DEPARTMENT**

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

December 6, 1985

## TREASURY TEMPORARILY POSTPONES WEEKLY BILL AUCTIONS

The Department of the Treasury today announced it was postponing the auction of \$7,600 million of 91-day Treasury bills and \$7,600 million of 182-day Treasury bills originally scheduled for auction December 9, 1985. These postponements are temporary, pending action on legislation to raise the debt limit.

Interested investors are advised to look for notice of the rescheduling of these auctions. Non-competitive tenders will be accepted through the earlier of Wednesday, December 11, 1985, or the time of the rescheduled auction.



US-Japan

# OFFICIAL TEXT



米國大使館広報・文化交流局報道部 PRESS OFFICE, UNITED STATES INFORMATION SERVICE  
AMERICAN EMBASSY, TOKYO TEL. 583-7141 EXT. 7919

Text of Joint Press Conference with David Mulford,  
Assistant Secretary of the Treasury,  
and Tomomitsu Oba, Vice Minister  
of the Ministry of Finance,  
December 9, 1985

MR. MULFORD: We completed today our third set of follow up discussions to the May 1984 yen-dollar agreement. As always these talks have been interesting. Frankly, I have to say that I leave today's meeting somewhat disappointed.

At the G5 meeting in New York in September, the Ministry of Finance committed (itself) to intensified implementation of financial market liberalization and internationalization of the yen. I am sorry to say that in today's discussions I saw little evidence of intensified efforts. On the Euro-yen markets, and I have in mind particularly here the Euro-yen note market, we have not seen the development of an active and liquid secondary market, where trading in Euro-yen bonds takes place on a substantial scale. Apparently, the Japanese securities houses, which compete aggressively for the management of Euro-yen issues, do not feel the responsibility or obligation for supporting the development of a liquid secondary market. This lack of commitment to making a market is troubling. It reduces the attractiveness of yen paper and consequently reduces international demand for yen investment instruments.

On the domestic financial markets, we have seen a number of changes in recent months. New instruments are now available and some interest rate liberalization has taken place. But the concept of a free liquid and deep market is still missing.

We had hoped that by now Japanese residents would have a wide range of attractive market determined instruments available for raising and investing funds. We have followed closely newspaper accounts of the forthcoming short-term government bond market. We had believed that this would provide a unique opportunity for the issuance of a truly attractive short-term government paper market. It could provide an instrument which international investors and domestic investors would desire. It could provide the useful tool to carry out monetary policy objectives and offer a real chance for liberalizing domestic capital markets.

It now seems clear to us that the Ministry of Finance has not maximized this new opportunity. And this we believe is quite unfortunate. We do see change taking place and we do believe that new

business opportunities now exist. And that investors are receiving better, more market-oriented instruments than they were two or three years ago.

We feel that real progress has been made in accepting foreign financial institutions more fully into the Japanese economy. The new addition of foreign firms to the Tokyo Stock Exchange is a clear example of this. Nevertheless, some improvements in market access and transparency are still needed.

Perhaps, the frustration lies in seeing change on the one hand but still seeing so much that needs to be done on the other hand. So many more opportunities to strengthen the Japanese financial system still exist and Japanese and foreigners deserve the broadest, deepest Japanese capital market possible.

#### QUESTIONS

Q: Dr. Mulford expressed a very candid criticism vis-a-vis the Japanese explanations during the meeting. I would like to, first of all, ask Mr. Oba about the Japanese response to those criticisms. Also, I would like to know what sort of discussions to expect regarding unitary taxation in the United States.

MR. OBA: First of all Euro-yen bonds issued by residents and nonresidents: the Japanese side explained recent developments by citing numbers. We did hear various comments from the U.S. side. The major ones I remember are (1) a comment from the U.S. side relating to rating and (2) there is, as you know, the 180-day restriction on the reflow of bonds into the Japanese market. The U.S. side suggested that the Japanese side could perhaps take a more flexible attitude. We also explained our thoughts with regard to the short-term government bond. For example, we explained that the method of issuance would be auctioned by way of public offering; that the interest rate will reflect the actual market rate. The maturity will be six months or less. The minimum transaction will be a hundred million to three hundred million yen. (We explained) that only legal persons or corporations will be allowed to participate in the trading. The bond will be a discount bond. And that with regard to taxation, there will be 16 percent withholding tax at issuance. And the withholding tax will be entirely tax accredited for the purpose of corporate income tax.

I believe it is better for you to ask Dr. Mulford about U.S. reaction to that. But in one word, I believe, the U.S. impression is that this instrument is not a simple one; that it seems to be very complicated, and the U.S. side seems to be concerned whether this bond will, in fact, be an attractive one or not. We, in response, said that we believe this instrument will sell in the market. And we hope that the U.S. side will watch future developments.

In the area of interest deregulation, of course, you are all aware of the developments the Japanese side explained to the U.S. -- the progress in interest deregulation over the past half of year. We explained that we have already embarked on consideration of

deregulation of interest rates on small denomination deposits and mentioned that we would like to indicate by spring of 1987 when deregulation of interests on large deposits completes some prospects for outlook for interest deregulation on small deposits.

With regard to inter-bank markets, we took up once again the questions we discussed in the last round of our follow-up discussions, namely matters related to interests rates, the question of collateral and noncollateral, the money market brokers; and the Bank of Japan explained about these aspects.

As far as the unitary taxation is concerned, the Japanese side asked the U.S. side how the federal government is addressing this question and I believe it is better for Dr. Mulford to brief you on this one.

DR. MULFORD: Well, we indicated that President Reagan announced on November 8 that it is appropriate in this case for the federal government to state its support for the concepts of legislation on unitary taxation, which would first effect a requirement that multi-nationals be taxed by states only on income derived from the territory of the United States. That is the so called "water's edge treatment".

A Second concept is to address the question of equitable taxation of foreign source dividends. The President has instructed Secretary Baker to initiate the process of designing legislation to incorporate these principals into law. Secretary Baker will work with Congress for passage of such legislation where appropriate, and where appropriate he will enter into negotiations to amend double taxation arrangements. We expect the legislation to incorporate the spread-sheet concept, which is designed to promote full taxation disclosure and accountability in order to provide states with information for tax enforcement. And we expect that the legislation will be submitted before the end of the current session of Congress which means sometime this month.

Q: I would like to know if the timetable was disclosed with regard to Tokyo Off Shore Market establishment?

MR. OBA: Well, with regard to the off shore market question, we explained that a relevant bill is being prepared right now, and that if that bill passes, then the Off Shore Center will be established. And we explained that when that will be solely depends on how the bill will be deliberated in the Diet. We explained that we are preparing the bill with a view to presenting it to the Diet in its next ordinary session.

Q: With regard to that rating question you referred to, was the U.S. suggestion that residents issue Euro-yen bonds also be made possible on the basis of ratings instead of the current financial criteria?

MR. OBA: Well the U.S. interests view was that the rating system should be introduced as early as possible for both non-residents issues as well as resident issues. In response to that, the Japanese

side mentioned that what we discussed in the yen-dollar committee was the question of rating for non-residents issues of Euro-yen bonds, but we also mentioned that we would also expect progress in the future in this area, with regards to residents issues as well.

DR. MULFORD: I should comment on that same question because we have, perhaps, a slightly different view of what was discussed originally in the committee. It's true that the discussion of rating applied to non-resident issues in the Euromarket because we wanted that market to conform to the international market in general, where the use of ratings is common instead of a highly complex set of criteria.

We also said that we wanted that market to follow international standards in so far as Japanese resident companies are concerned and, therefore, we assumed at the time that these companies would also be subjected to ratings. We would like to see the present system of complicated criteria for resident companies to use the international market be replaced by a simple rating system that would greatly expand the number of resident companies that could use the Euro-yen market.

Q: I would like to ask Dr. Mulford a question. We understand you mentioned that you question whether the short-term government bonds will become attractive instrument. I wonder what specific aspects made you say that?

DR. MULFORD: Well we had an expectation that this opportunity to create a short-term government bond market in Japan which up until now did not exist would be used to create a highly-liquid market, usable by small, medium, and large investors and available also to foreign investors with cash liquidity to invest in the yen market. Instead, we now see this will be a very complicated instrument with very large minimum denomination size which can only be bought by large corporate investors.

The withholding tax arrangements which have been applied are very complex. We had hoped that this bond would be exempt from withholding tax and, indeed, the highly complicated system that has been set up is not designed to collect revenue. It simply is designed to apply withholding tax to the bond. Therefore, we think the instrument will lack appeal in Japan because the withholding tax would be applied up front and only off set for the Japanese investor at the time of maturity.

So, it will be a very cumbersome process and it will make the instrument undesirable in the eyes of foreign investors, who if they buy the bond, we believe will find it difficult to sell it -- as they would have to do so just prior to maturity in order to avoid suffering the withholding tax consequences. In other words, the price at the time of sale would reflect a buyers' market, which would penalize the foreign investor when it came time to sell the bond.

In the United States, the treasury bill is the comparable instrument to this short term bond. This is bought by absolutely everybody in denominations down, I believe, as low as \$3000, where as

the short-term bond will have a minimum bond of between \$500 thousand and one and a half million dollars. The number of applicants who bid for the treasury bill runs in the hundreds, including individuals who may put in their own bid.

In this market, it will be limited to a small group of qualified dealing firms. United States treasury bills are issued once a week. I think the plan for the short-term government bond is perhaps to issue it maybe four times each year, and treasury bills account for approximately 40 percent of all U.S. government bonds. The instrument being discussed here would, as presently constituted and contemplated for issue, only account for a very minor percentage of all Government of Japan bonds. I'm correct I think in assuming it would be under one percent. Finally the treasury bill is free of all withholding tax so it can be bought freely by foreign investors -- and it is as easy to buy, almost as easy to buy, as a newspaper in the United States.

Q: With regard to the Tokyo Stock Exchange question, six foreign security houses were accepted as members but several others who had applied were not included, and I wonder if there is any comment on that point.

DR. MULFORD: No, I have no comment on that point, except to say that I believe there will be a continuing interest in the future on behalf of foreign firms to take part in the Japanese stock market business and to join the stock exchange, if possible; so I think there will be a continuing interest and continuing pressure to, on the part of foreign firms, attempt to join the stock exchange.

Q: I wonder Mr. Oba if you have any response to Dr. Mulford's explanation with regards to the treasury bills of the United States. I think Dr. Mulford made very persuasive remarks as to the differences between the U.S. T.B's and the Japanese planned short-term government bonds. I wonder if Mr. Oba would have equally a persuasive response to make to that.

MR. OBA: This short term government bond is a revenue bond and therefore it can not avoid being subject to withholding tax. Now we tried to devise various ideas so that withholding tax will not pose an obstacle to distribution of the instrument. And perhaps these ideas that we came up with gave the impression that this instrument is a very complex one. But we hope that the market will judge this instrument as an attractive one.

Q: The impression of the development of a secondary Euro-Yen market, Dr. Mulford, you mentioned the aggressive underwriting by the Japanese houses: do you think that this is a function of the inability to develop a secondary market? Do you think the bond is priced in terms that simply do not lead to a secondary market? If so do you think that this will eventually correct itself as long as they do not want to take losses in underwriting? Or do you see a real role for the Japanese government to play in the development of the secondary market.

DR. MULFORD: Well the problem is a very complicated one. The Japanese firms bid aggressively for the business and the result is that they end up with bonds that are difficult to place initially with foreign investors. So they tend to find ways to warehouse the bonds, either themselves or through banks or other mechanisms until after 180 days the bonds can be sold into Japan. This means that their energy and their capital is tied up in that process and is not made available to support an active secondary market.

The foreign investor and foreign firms are left in a situation, where there is insufficient liquidity, in their view, in the yen bond market. So they are nervous about buying these bonds at present rates, because they are worried about the liquidity. I have urged the Ministry of Finance, not to itself become engaged in making a secondary market or sponsoring a secondary market. But simply to encourage the leading Japanese firms to realize that unless they themselves place more actively with foreign investors and then create an active and liquid secondary market for these bonds, we will not see a significant long term growth in the Euro-yen note market.

Q: I would like to ask Dr. Mulford a few questions. I wonder how you responded to Japanese question related to U.S. budget deficit. Secondly, I believe that this budget deficit has a lot a bearing on the exchange rate since the G5 meeting. I would like to hear your views on the exchange rate situation.

DR. MULFORD: Well, as you know, there is a present legislation called the Graham, Rudman, Hollings amendment. This has been under consideration and political negotiation for at least eight weeks now. This legislation -- there was a House and Senate version -- and a conference group of the House and the Senate negotiating a solution. On Friday night, this group reached an agreement in principal on the format of that bill and today (on Monday in the United States) the full conference is suppose to vote on that solution. And after that, a bill which will be identical for both the House and the Senate, will be acted on by both Houses and sent to the President for his signature.

The administration supports this bill, which will call for a budget deficit ceiling for the present year, fiscal year 1986, and then a series of declining figures until, in fiscal year 1991, the budget deficit is removed. In fiscal year 1986 the limit for the deficit is 172 billion and then it drops in each year after that. So, that in this fiscal year there will have to be, I understand, something like 11 billion dollars of cuts and then in subsequent years that number is substantially larger. And these must be carried out under the law.

We believe this bill, if it is enacted and put into law, very substantially, recognizes the commitment made by the United States in the G5 accord in September to continue to commit itself to reducing the U.S. budget deficit. We think it is a very, very important development and will start a process with a substantial and clearly visible progression of reductions into the future. We think it is an important, fundamental economic development that will, among other things, influence the world's view of our economic situation, and therefore will have some bearing in due course on exchange rates.

You asked about exchange rates also. Since the G5 statement in September, we have not seen any development in exchange rates since then that has made us unhappy. We think that the progress has been constructive. We recognize that further progress is going to be related to further changes in each country's economic situation and I would remind you that each country, the United States, Japan, Germany, France and the U.K. have all made commitments about their future economic policy intentions which we must all continue to try to implement and carry out in order to continue this process forward.

Q: Dr. Mulford in your opening comment you said that Japan had failed to live up to its commitment to liberalize financial markets and internationalize, to intensify its evidence to liberalize its financial markets and internationalize the yen. And after that you mentioned short term government bonds and the secondary market and Euro bonds. Are there other things you had expected to see the Japanese side do? Or are those the only two things that you found disappointing?

DR. MULFORD: Well, I said that a commitment was made to intensify the effort to liberalize the domestic market and internationalize the yen and that at today's meeting, we didn't see evidence of this. And in addition to the two major areas you mentioned, there are lots of smaller questions that we discussed, where we think there could be a faster pace of change -- where the changes are already known but perhaps the timetable could be accelerated.

For example, interest rate deregulation on large deposits might be advanced, the changes we have talked about in the inner bank market to, for example, reduce the 90 day maturity requirement on inner bank deposits down to over night money, so that there could be a freer market there for banks who which to raise money in that market.

There are certain areas in government dealing where feel changes could be, for example, the waiving of the requirement which says that after a bank begins to deal in government bonds there is a limit on dealings to maturities of two years or shorter. We would like to have seen that waived. We would like to see applications for that market handled more quickly. We think that there is a need for greater transparency in the rules that cover the capital leverage requirements for foreign securities houses in Japan, which are much less liberal than those that are allowed to the Japanese firms. We would like to see an acceleration of changes in the Euro-yen market, dropping of the five year maturity requirement, extending the Euro-yen CD maximum maturity from six months to one year. There are a variety of things of that type.

Q: Just one last question I would like to ask -- with regard to the future time table of the yen-dollar discussions, I understand you still have differences of view and I wonder what your are your future plans for continued discussion.

MR. OBA: I'm sorry I forgot to mention that we do have a consensus that we will continue this meeting in the future, and that we will meet sometime in the spring of next year -- although we did agree that we must avoid May 2nd, 3rd and 4th.

(laughter. End Text)

\* \* \*

OT-85-89



# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M.

December 10, 1985

## TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately \$15,200 million, to be issued December 19, 1985. This offering will provide about \$925 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of \$14,281 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Monday, December 16, 1985. The two series offered are as follows:

91-day bills (to maturity date) for approximately \$7,600 million, representing an additional amount of bills dated March 21, 1985, and to mature March 20, 1986 (CUSIP No. 912794 JX 3), currently outstanding in the amount of \$15,762 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately \$7,600 million, to be dated December 19, 1985, and to mature June 19, 1986 (CUSIP No. 912794 KL 7).

The Treasury will postpone the auctions unless it has assurance of Congressional action on legislation to raise the statutory debt limit before the scheduled auction date of December 16, 1985.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Both series of bills will be issued entirely in book-entry form in a minimum amount of \$10,000 and in any higher \$5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

The bills will be issued for cash and in exchange for Treasury bills maturing December 19, 1985. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rates of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. Federal Reserve Banks currently hold \$892 million as agents for foreign and international monetary authorities, and \$3,729 million for their own account. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

Each tender must state the par amount of bills bid for, which must be a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than \$1,000,000.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

A noncompetitive bidder may not have entered into an agreement, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned prior to the designated closing time for receipt of tenders.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills. In addition, Treasury Tax and Loan Note Option Depositories may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

# TREASURY NEWS



**Department of the Treasury • Washington, D.C. • Telephone 566-2041**

FOR IMMEDIATE RELEASE  
December 11, 1985

Contact: Charles Powers  
Phone: (202) 566-2041

## RONALD A. PEARLMAN ASSISTANT SECRETARY FOR TAX POLICY TO LEAVE TREASURY

Ronald A. Pearlman, Assistant Secretary of the Treasury for Tax Policy, will leave the Treasury Department on December 20 to return to private law practice as a partner with Bryan, Cave, McPheeters & McRoberts, St. Louis, MO.

J. Roger Mentz, Deputy Assistant Secretary (Tax Policy), will succeed Mr. Pearlman as the Acting Assistant Secretary.

Secretary of the Treasury James A. Baker, III, said "Ron Pearlman has made significant contributions to the development and administration of sound tax policy for our nation. Ron's efforts in the development of the Administration's tax reform proposal have been critical. His dealings with members of Congress on tax reform and other tax legislation and policy issues earned Ron the respect necessary to be an effective Assistant Secretary for Tax Policy. I will miss his advice and counsel, nonetheless I wish him well in his future endeavors."

Prior to his nomination as Assistant Secretary, Mr. Pearlman served as Deputy Assistant Secretary of the Treasury for Tax Policy. In his capacity as Assistant Secretary, Mr. Pearlman has been responsible for the formulation and execution of United States domestic and international tax policies.

Prior to joining the Treasury, Mr. Pearlman was engaged in the private practice of law in St. Louis and served as an adjunct professor of law at Washington University School of Law, St. Louis.

Previously, he served in the Office of the Chief Counsel of the Internal Revenue Service from 1965-69.

Mr. Pearlman earned a B.A. degree, with honors, from Northwestern University in 1962, and received his J.D. degree, cum laude, from Northwestern's Law School where he was on the Board of Editors of the Law Review. He was also a member of the Order of the COIF. In 1967, he earned an LL.M. degree in Taxation from Georgetown University Law Center.

Mr. Pearlman is a member of the American Bar Association, the American Law Institute, and The Missouri Bar.

Mr. Pearlman and his wife Hedy have two children, Steven and Leslie.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 10:00 A.M.

December 11, 1985

## RESCHEDULING OF TREASURY'S WEEKLY BILL AUCTIONS

The Department of the Treasury hereby amends its offering announcement of December 3, 1985, to change the auction date, closing time, and location for receipt of competitive tenders to Thursday, December 12, 1985, prior to 10:00 a.m., EST, only at the Federal Reserve Bank of New York.

This rescheduling of the 91-day and 182-day Treasury bill auctions is contingent upon enactment of pending legislation to raise the public debt limit.

The announcement of December 3 is further amended as follows:

Wire and telephone tenders may be received at the discretion of the Federal Reserve Bank of New York. Each competitive tender for the respective issues must be for a minimum amount of \$10,000,000. Competitive tenders over \$10,000,000 must be in multiples of \$1,000,000. Competitive tenders must show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions must not be used.

Noncompetitive tenders received in all Federal Reserve Districts and at the Treasury in Washington by close of business local time, December 11, 1985, will be accepted in the two auctions.

The provision for Treasury Tax and Loan Note Option Depositories to make payment by credit to their Treasury Tax and Loan Note Accounts is rescinded.

All other terms and conditions in the announcement of December 3 remain the same.

oOo

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-204

FOR IMMEDIATE RELEASE

December 11, 1985

## TREASURY TO AUCTION 2-YEAR AND 4-YEAR NOTES TOTALING \$16,500 MILLION

The Department of the Treasury will auction \$9,500 million of 2-year notes and \$7,000 million of 4-year notes to refund \$11,760 million of securities maturing December 31, 1985, and to raise \$4,700 million new cash. The \$11,760 million of maturing securities are those held by the public, including \$684 million of maturing securities currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

The \$16,500 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average prices of accepted competitive tenders.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold \$771 million of the maturing securities that may be refunded by issuing additional amounts of the new securities at the average prices of accepted competitive tenders.

The Treasury will postpone these auctions unless it has assurance of Congressional action on legislation to raise the statutory debt limit before the scheduled auction dates of December 17 and December 18, 1985.

Details about each of the new securities are given in the attached highlights of the offerings and in the official offering circulars.

oOo

Attachment

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC  
OF 2-YEAR AND 4-YEAR NOTES TO BE ISSUED DECEMBER 31, 1985

December 11, 1985

Amount Offered to the Public.....	\$9,500 million	\$7,000 million
<u>Description of Security:</u>		
Term and type of security.....	2-year notes	4-year notes
Series and CUSIP designation.....	Series AD-1987 (CUSIP No. 912827 TA 0)	Series P-1989 (CUSIP No. 912827 TB 8)
Maturity date.....	December 31, 1987	December 31, 1989
Call date.....	No provision	No provision
Interest Rate.....	To be determined based on the average of accepted bids	To be determined based on the average of accepted bids
Investment yield.....	To be determined at auction	To be determined at auction
Premium or discount.....	To be determined after auction	To be determined after auction
Interest payment dates.....	June 30 and December 31	June 30 and December 31
Minimum denomination available...	\$5,000	\$1,000
<u>Terms of Sale:</u>		
Method of sale.....	Yield auction	Yield auction
Competitive tenders.....	Must be expressed as an annual yield, with two decimals, e.g., 7.10%	Must be expressed as an annual yield, with two decimals, e.g., 7.10%
Noncompetitive tenders.....	Accepted in full at the aver- age price up to \$1,000,000	Accepted in full at the aver- age price up to \$1,000,000
Accrued interest payable by investor.....	None	None
Payment by non-institutional investors.....	Full payment to be submitted with tender	Full payment to be submitted with tender
Payment through Treasury Tax and Loan (TT&L) Note Accounts....	Acceptable for TT&L Note Option Depositories	Acceptable for TT&L Note Option Depositories
Deposit guarantee by designated institutions.....	Acceptable	Acceptable
<u>Key Dates:</u>		
Receipt of tenders.....	Tuesday, December 17, 1985, prior to 1:00 p.m., EST	Wednesday, December 18, 1985, prior to 1:00 p.m., EST
Settlement (final payment due from institutions):		
a) cash or Federal funds.....	Tuesday, December 31, 1985	Tuesday, December 31, 1985
b) readily-collectible check.....	Friday, December 27, 1985	Friday, December 27, 1985

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-204

FOR IMMEDIATE RELEASE

December 11, 1985

## SCHEDULING OF 7-YEAR AND 20-YEAR SECURITY AUCTIONS

The Department of the Treasury announced that the auctions of 7-year notes and 20-year 1-month bonds will be scheduled for early January 1986. Details of the offerings of these securities will be announced later.





THE SECRETARY OF THE TREASURY  
WASHINGTON

December 6, 1985

Dear Mr. Speaker:

Enclosed is a legislative proposal entitled the "Government Securities Market Improvement Act of 1985." This Act would expand the authority of the Secretary of the Treasury to issue regulations regarding the conditions under which public debt securities are purchased and traded. The bill would also provide for registration and regulation of brokers and dealers in both United States Treasury and other government-related obligations. The bill includes conforming amendments to the Securities Exchange Act of 1934.

The genesis of this legislation is two-fold -- our concern about maintaining the integrity of the market for Treasury and other government-related obligations after the dealer failures earlier this year, and Treasury's on-going activities to provide investors with assurance of the security of the system through which they hold non-physical or book-entry Treasury obligations. A careful study of the government securities market has led us, and other agencies, to conclude that the current regulatory structure is inadequate and additional regulatory oversight is necessary. The market for U.S. Treasury securities is the largest, most liquid, and most efficient financial market in the world. The Treasury Department, as the issuer of obligations of the United States and as the agency charged by Congress with the management of the public debt, is deeply concerned with maintaining the efficiency and integrity of and investor confidence in this unique market as well as related agency securities markets. These factors are indispensable to achieving the lowest possible financing costs.

The proposed legislation would require the Secretary of the Treasury to prescribe standards for all brokers and dealers in government securities with respect to protection of customer securities and balances, and for currently unregulated brokers and dealers in such additional areas as financial responsibility and financial record-keeping and audit. It also would require the Secretary to prescribe standards with respect to protection of customer securities by depository institutions that are not brokers or dealers. All regulations would be written in consultation with the Federal Reserve Board. Currently unregistered brokers and dealers would be required to register with the Securities and Exchange Commission. Broker-dealers now registered under section 15 of the Securities Exchange Act of 1934, as well as brokers and dealers who are banks or thrifts, would be required to provide their regulatory agencies with notice of their status as government securities brokers or dealers. These agencies would then so notify the Commission, resulting in a centralized collection of all entities in the market. Inspection

of brokers and dealers (as well as of non-dealer depository institutions) and enforcement of regulations would be done by the bank regulators for banks and thrifts under their supervision, and by the Commission (and related self-regulatory organizations) for all others. The legislation explicitly provides that the business relationship of the New York Federal Reserve Bank with brokers and dealers will not be affected.

Pursuant to the public debt statutes, the Treasury issues certain regulations and may increase its oversight of dealers to assure the integrity and efficiency of the market for U.S. Government securities. However, there is a need to broaden the authority of the Secretary of the Treasury to assure effective compliance with minimum standards which should be met by all dealers in Treasury and related securities and depository institutions acting as book-entry custodians of these securities.

The proposed legislation is consistent with the proposal in outline form that the Federal Reserve Board, the Securities and Exchange Commission, and the Treasury agreed to earlier this year. There is no need to subject Treasury or agency securities to the extensive regulatory regimes established by the securities laws for other securities, or to establish a new regulatory body to deal with this unique market. The joint regulatory actions outlined in this legislation present the most efficient vehicle for protecting investors in government securities while eliminating potentially over-lapping regulation and insuring that the cost of financing government activities is kept to a minimum.

It would be appreciated if you would lay the proposed bill before the House of Representatives. An identical letter has been sent to the President of the Senate.

The Office of Management and Budget advises that it has no objection to the presentation of this legislative proposal to Congress and that its enactment would be in accord with the program of the President.

Sincerely,



James A. Baker, III

The Honorable Thomas P. O'Neill, Jr.  
Speaker of the House of Representatives  
Washington, D.C. 20515

Enclosure

**A BILL**

**To require the registration and regulation of brokers and dealers in government securities, and for other purposes.**

**Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,**

**Sec. 1.(a) That this Act may be cited as the "Government Securities Market Improvement Act of 1985."**

**(b) The Congress finds that in order to help protect the public interest in the government securities markets, it is necessary to assure that government securities brokers and government securities dealers are subject to adequate registration, financial responsibility, reporting, record-keeping, and other related regulatory requirements designed to assure the protection of customer securities.**

**Sec. 2.(a) The Securities and Exchange Commission shall require that each government securities broker and government securities dealer (other than (1) a broker or dealer registered under section 15 of the Securities Exchange Act of 1934 or (2) a depository institution) shall register with the**

Commission in such form and providing such information and documents concerning the government securities broker or government securities dealer and persons associated therewith as the Commission shall by regulation require. The Commission shall grant the registration if it finds that the requirements of this Act are satisfied. It shall deny such registration if it does not make such a finding or if it finds that if the applicant were so registered its registration would be subject to suspension or revocation under section 4 of this Act. Each government securities broker and government securities dealer so registered shall be required to become a member of a national securities exchange registered under section 6 or a national securities association registered under section 15A of the Securities Exchange Act of 1934.

(b) Each government securities broker and government securities dealer that is either a broker or dealer registered under section 15 of the Securities Exchange Act of 1934 or a depository institution shall provide notice to the appropriate regulatory agency in such form as such agency, in consultation with the Commission, shall prescribe by regulation that the broker or dealer or depository institution is a government securities broker or a government securities dealer, and each appropriate regulatory agency, other than the Commission, shall provide a copy of such notice to the Commission.

Sec. 3.(a)(1) The Secretary of the Treasury shall prescribe

regulations for the conduct of business as a government securities broker or a government securities dealer concerning the safeguarding and use of customer securities, credit balances and deposits, including in particular regulations relating to adequate segregation of customer securities and securities which are the subject of repurchase transactions.

(2) In promulgating regulations under this subsection, the Secretary shall determine, with respect to government securities brokers and government securities dealers not required to register with the Commission pursuant to section 2(a) of this Act, whether any or all of the rules or standards of the appropriate regulatory agency for such government securities broker or government securities dealer adequately meet the purposes of regulations promulgated under this subsection and, if the Secretary so determines, he shall exempt any government securities broker or government securities dealer subject to such rules or standards from any or all of the regulations promulgated under this subsection.

(b) The Secretary shall in addition prescribe regulations for the conduct of business by government securities brokers and government securities dealers required to register with the Commission under section 2(a) of this Act with respect to capital adequacy standards, records to be made and kept and furnished, reports to be made and disseminated, and requirements for annual or more frequent filing and/or

auditing of financial statements and other information concerning financial condition and their certification by independent accountants.

(c) The Secretary shall require that any depository institution that is not a government securities broker or a government securities dealer but that holds government securities other than for its own account, or which holds such securities as a fiduciary, meet such standards for safeguarding of government securities held for customers, including in particular the segregation of such securities, as the Secretary shall by regulation prescribe.

(d) In promulgating regulations under this section, the Secretary shall consult with the Board of Governors of the Federal Reserve System.

Sec. 4.(a) The Commission is authorized, pursuant to section 15(b)(4) of the Securities Exchange Act of 1934, to take action in such manner and for such purposes as specified in that section, against any government securities broker or government securities dealer required to be registered with the Commission under section 2(a) of this Act, and the Commission is also authorized, pursuant to section 15(b)(6) of the Securities Exchange Act of 1934, to take action in such manner and for such purposes as specified in that section, against any person associated with a government securities

broker or government securities dealer required to be registered with the Commission under subsection 2(a) of this Act. The Commission shall maintain and make available to the public a record of sanctions imposed under this subsection.

(b) With respect to any government securities broker or government securities dealer who is not required to register with the Commission under section 2(a) of this Act, the appropriate regulatory agency for such government securities broker or government securities dealer may, in the manner and for the reasons specified in section 15(b)(4) of the Securities Exchange Act of 1934, censure, place limitations on the activities, functions or operations of, suspend for a period not exceeding twelve months, or bar from acting as a government securities broker or government securities dealer any such government securities broker or government securities dealer, and may sanction any person associated with such government securities broker or government securities dealer in the manner and for the reasons specified in section 15(b)(6) of the Securities Exchange Act. In addition, where applicable, an appropriate regulatory agency (except the Commission) may, in accordance with section 53 of the National Bank Act (12 U.S.C. 93), section 8 of the Federal Deposit Insurance Act (12 U.S.C. 1818), section 5 of the Home Owners' Loan Act of 1933 (12 U.S.C. 1464), section 407 of the National Housing Act (12 U.S.C. 1730), or section 206 of the Federal Credit Union Act (12 U.S.C. 1786), enforce

compliance by such government securities broker or government securities dealer or any person associated therewith with the provisions of this Act and the regulations of the Secretary pertaining to government securities brokers or government securities dealers, persons associated with government securities brokers or government securities dealers, and transactions in government securities. For purposes of the preceding sentence, any violation of any such provisions shall constitute adequate basis for the issuance of any order under section 53(a) or 53(b) of the National Bank Act, section 8(b) or 8(c) of the Federal Deposit Insurance Act, section 5(d)(2) or 5(d)(3) of the Home Owners' Loan Act of 1933, section 407(e) or 407(f) of the National Housing Act or section 206(e) or 206(f) of the Federal Credit Union Act and the customers of any such government securities broker or government securities dealer shall be deemed, as appropriate, "depositors" as that term is used in section 8(c) of the Federal Deposit Insurance Act, "saving account holders" as that term is used in section 5(d)(3) of the Home Owners' Loan Act of 1933, or "insured members" as that term is used in section 407(f) of the National Housing Act and section 206(f) of the Federal Credit Union Act. Nothing in this subsection shall be construed to affect in any way the powers of such appropriate regulatory agency to proceed against such government securities broker or government securities dealer under any other provision of law. Each appropriate regulatory agency other than the Commission shall promptly notify the Commission after it has imposed any



sanction under this paragraph on a government securities broker or government securities dealer or a person associated therewith, and the Commission shall maintain, and make available to the public, a record of such sanctions and any sanctions imposed by it under this subsection.

(c)(1) Any government securities broker or government securities dealer or person associated therewith who is required to register or give notice under section 2 of this Act but fails to do so or who otherwise violates this Act or any regulation prescribed under this Act may be assessed a civil penalty by the appropriate regulatory agency for such government securities broker or government securities dealer of not more than \$10,000 for each violation. Each day a violation continues shall constitute a separate offense.

(2) Penalties under this subsection shall be assessed only after appropriate notice and opportunity for a hearing thereon.

(3) The appropriate regulatory agency (other than the Commission) shall notify the Commission of any assessment of a penalty against a government securities broker or government securities dealer or person associated therewith. The Commission shall maintain and make available to the public a record of such penalties.

(d) The appropriate regulatory agency, after appropriate notice and opportunity for a hearing, may censure or restrict the activities, functions, or operations relating to government securities of any depository institution subject to regulation under section 3(c) of this Act or any person associated therewith if the appropriate regulatory agency determines that such depository institution or person associated therewith has violated this Act or any regulation prescribed under section 3(c) of this Act. In addition, where applicable, the regulatory agency may in accordance with section 53 of the National Bank Act (12 U.S.C. 93), section 8 of the Federal Deposit Insurance Act (12 U.S.C. 1818), section 5 of the Home Owners' Loan Act of 1933 (12 U.S.C. 1464), section 407 of the National Housing Act (12 U.S.C. 1730), or section 206 of the Federal Credit Union Act (12 U.S.C. 1786) enforce compliance by a depository institution with any regulation prescribed under section 3(c) of the Act. For purposes of the preceding sentence, any violation of any such regulation shall constitute adequate basis for the issuance of any order under section 53(a) or 53(b) of the National Bank Act, section 8(b) or 8(c) of the Federal Deposit Insurance Act, section 5(d)(2) or 5(d)(3) of the Home Owners' Loan Act of 1933, section 407(e) or 407(f) of the National Housing Act, or section 206(e) or 206(f) of the Federal Credit Union Act. Nothing in this subsection shall be construed to affect in any way the powers of such appropriate regulatory agency to proceed against such depository institution under any other

provision of law. Each appropriate regulatory agency shall promptly notify the Secretary after it has imposed any sanction under this subsection on a depository institution. The Secretary shall maintain and may make available to the public a record of such sanctions.

(e) Nothing in this Act shall in any way limit the discretion of the Federal Reserve Bank of New York to require reports or to establish terms and conditions in connection with that Bank's business relationship with any government securities broker or government securities dealer.

(f) Nothing in this Act shall in any way restrict the existing authority of the Commission, the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, the Department of Housing and Urban Development and the Government National Mortgage Association to regulate, examine and supervise the activities (including activities involving government securities) of any government securities broker, government securities dealer or depository institution under their respective jurisdictions, and of any subsidiary of such a government securities broker, government securities dealer or depository institution, or to take any enforcement action in accordance with section 53 of the National Bank Act (12 U.S.C. 93), section 8 of the Federal

Deposit Insurance Act (12 U.S.C. 1818), section 5 of the Home Owners' Loan Act of 1933 (12 U.S.C. 1464), section 407 of the National Housing Act (12 U.S.C. 1730), section 206 of the Federal Credit Union Act (12 U.S.C. 1786), the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Advisers Act of 1940, the Investment Company Act of 1940, or title III of the National Housing Act (12 U.S.C. 1716 et seq).

Sec. 5. Any government securities broker or government securities dealer or person associated therewith and any depository institution or person associated therewith who willfully violates this Act or any regulation prescribed under this Act or any regulation of an appropriate regulatory agency implementing this Act, including a willful failure to give notice or register, shall, upon conviction, be fined not more than \$100,000, imprisoned for not more than five years, or both, for each violation.

Sec. 6. The Secretary may by regulation or order exempt any government securities broker or government securities dealer or class of government securities broker or government securities dealer from registration, and may by regulation or order exempt any government securities broker or government securities dealer or class of government securities broker or government securities dealer or any depository institution or class of depository institution subject to regulation under subsection 3(c) from the requirements of any regulation

prescribed under this Act if the Secretary finds it appropriate and consistent with the purposes of this Act to do so.

Sec. 7. Information relating to possible violations of this Act and the rules and regulations thereunder received by any appropriate regulatory agency or the Secretary from or with respect to any government securities broker or government securities dealer for which it is not the appropriate regulatory agency, or with respect to any person associated therewith shall be made available by the Secretary or the recipient agency to the Commission, the Secretary, and the appropriate regulatory agency and, if applicable, the self regulatory organization for such government securities broker or government securities dealer.

Sec. 8.(a) For the purposes of investigating whether a person has violated, is violating, or is about to violate this Act or any regulation prescribed under this Act, the appropriate regulatory agency for such person or any officer or employee of the United States designated by such appropriate regulatory agency is empowered to administer oaths and affirmations, subpoena witnesses, compel their attendance, take evidence, and require the production of any books, papers, correspondence, memoranda, or other records which the appropriate regulatory agency deems relevant or material to the inquiry. Such attendance of witnesses and the production

of any such records may be required from any place in the United States or any State or territory at any designated place of hearing.

(b) In case of contumacy by, or refusal to obey a subpoena issued to, any person, the appropriate regulatory agency may invoke the aid of any court of the United States within the jurisdiction where such investigation is being conducted, or where such person resides or carries on business, in requiring the attendance and testimony of witnesses and the production of books, papers, correspondence, memoranda, and other records. All process in any such case may be served in the judicial district in which such person is an inhabitant or wherever he may be found.

(c) When any appropriate regulatory agency believes a person has violated, is violating, or is about to violate this Act or a regulation prescribed or order issued under this Act, such appropriate regulatory agency may, subject to the approval of the Attorney General if such approval is otherwise required in order for the agency to bring a civil action to enforce statutes and regulations under its jurisdiction, bring a civil action in the appropriate district court of the United States or in the appropriate United States court of a territory or possession of the United States, or in the United States District Court for the District of Columbia, to enjoin the violation or to enforce compliance with the regulation or

order. An injunction or temporary restraining order shall be issued without bond.

Sec. 9. For purposes of this Act--

(a) "appropriate regulatory agency" means with respect to a depository institution that is not a government securities broker or government securities dealer --

(1) the Comptroller of the Currency, in the case of a national bank or a bank acting under the District of Columbia Code or a federal branch or federal agency of a foreign bank (as defined in the International Banking Act of 1978);

(2) the Board of Governors of the Federal Reserve System, in the case of a State member bank of the Federal Reserve System or a foreign bank, a state branch or state agency of a foreign bank, or a commercial lending company owned or controlled by a foreign bank (as defined in the International Banking Act of 1978);

(3) the Federal Deposit Insurance Corporation, in the case of a bank insured by the Federal Deposit Insurance Corporation (other than a member of the Federal Reserve System or a Federal savings bank), or eligible to make application to become so insured;

(4) the Federal Home Loan Bank Board, in the case of a Federal savings and loan association, Federal savings bank, or District of Columbia savings and loan association;

(5) the Federal Savings and Loan Insurance Corporation, in the case of an institution insured by the Federal Savings and Loan Insurance Corporation (other than a Federal savings and loan association, Federal savings bank, or District of Columbia savings and loan association) or eligible to make application to become so insured; and

(6) the National Credit Union Administration in the case of an institution insured by the National Credit Union Administration or eligible to make application to become so insured.

(b) "appropriate regulatory agency" means with respect to a government securities broker or government securities dealer --

(1) the Comptroller of the Currency, in the case of a national bank, a bank acting under the District of Columbia Code or a federal branch or federal agency of a foreign bank (as defined in the International Banking Act of 1978);

(2) the Board of Governors of the Federal Reserve



System, in the case of a State member bank of the Federal Reserve System, a foreign bank (other than a broker or dealer registered under section 15 of the Securities Exchange Act of 1934), a state branch or state agency of a foreign bank, or a commercial lending company owned or controlled by a foreign bank (as such terms are defined in the International Banking Act of 1978);

(3) the Federal Deposit Insurance Corporation, in the case of a bank insured by the Federal Deposit Insurance Corporation (other than a member of the Federal Reserve System or a Federal savings bank);

(4) the Federal Home Loan Bank Board, in the case of a Federal savings and loan association, Federal savings bank or District of Columbia savings and loan association;

(5) the Federal Savings and Loan Insurance Corporation, in the case of an institution insured by the Federal Savings and Loan Insurance Corporation (other than a Federal savings and loan association, Federal savings bank, or District of Columbia savings and loan association);

(6) the National Credit Union Administration in the case of an institution insured by the National Credit Union Administration; and

(7) the Commission in the case of all other government securities brokers and government securities dealers.

(c) "Commission" means the Securities and Exchange Commission.

(d) "depository institution" has the meaning stated in clauses (i) through (vi) of subparagraph 19(b)(1)(A) of the Federal Reserve Act and also includes a foreign bank, a state agency or state branch of a foreign bank, a commercial lending company owned or controlled by a foreign bank and a federal branch or agency of a foreign bank (as such terms are defined in the International Banking Act of 1978) other than a broker or dealer registered under section 15 of the Securities Exchange Act of 1934.

(e) "government securities" means--

(1) securities which are direct obligations of, or obligations guaranteed as to principal or interest by, the United States;

(2) securities which are issued or guaranteed by corporations in which the United States has a direct or indirect interest (including government-sponsored corporations) which are either (A) designated as "exempted

securities" by the Secretary under paragraph 3(a)(12) of the Securities Exchange Act of 1934, or (B) otherwise deemed by statute to constitute exempted securities under the Securities Exchange Act of 1934; or

(3) any put, call, straddle, option, or privilege on a security described in paragraph (1) or (2) other than a put, call, straddle, option, or privilege (A) that is traded on one or more national securities exchanges; or (B) for which quotations are disseminated through an automated quotation system operated by a registered securities association.

(f) "government securities broker" means any person regularly engaged in the business of effecting transactions in government securities for the account of others.

(g) "government securities dealer" means any person regularly engaged in the business of buying and selling government securities for his own account, through a broker or otherwise, but does not include any person insofar as he buys or sells such securities for his own account either individually or in some fiduciary capacity, but not as part of a regular securities business.

(h) "person" means a natural person, corporation, company, partnership, association, firm, society, or joint stock company.

(i) "person associated with" a government securities broker, government securities dealer or depository institution means any partner, officer, director, or branch manager of such government securities broker, government securities dealer or depository institution, and any other employee of such government securities broker, government securities dealer or depository institution engaged in the management, direction, supervision or performance of any activities relating to government securities, and any person directly or indirectly controlling, controlled by or under common control with such government securities broker, government securities dealer or depository institution.

(j) "Secretary" means the Secretary of the Treasury.

Sec. 10. The Securities Exchange Act of 1934 is amended as follows -

(a) Subparagraph (B) of section 3(a)(39) is amended by--

(1) striking out "or municipal securities dealer" each place it appears and inserting in lieu thereof "municipal securities dealer, government securities broker, or government securities dealer"; and

(2) inserting before the semicolon at the end

thereof "or an order of the Commission or other appropriate regulatory agency suspending or barring him from acting as a government securities broker or government securities dealer."

(b) Subparagraph (C) of section 3(a)(39) is amended by striking out "or municipal securities dealer" each place it appears and inserting in lieu thereof "municipal securities dealer, government securities broker, or government securities dealer."

(c) Section 3(a) of the Act is further amended by adding at the end thereof the following new paragraphs:

"(42) The term 'depository institution' has the meaning stated in clauses (i) through (vi) of subparagraph 19(b)(1)(A) of the Federal Reserve Act and also includes a foreign bank, a state branch or state agency of a foreign bank, a commercial lending company owned or controlled by a foreign bank and a federal branch or federal agency of a foreign bank (as such terms are defined in the International Banking Act of 1978) other than a broker or dealer registered under section 15 of this title.

"(43) The term 'government securities' means -

"(A) securities which are direct obligations of, or obligations guaranteed as to principal or interest by, the United States;

"(B) securities which are issued or guaranteed by corporations in which the United States has a direct or indirect interest and which are designated as 'exempted securities' by the Secretary of the Treasury under paragraph (12) of this subsection; or

"(C) securities which are issued or guaranteed by corporations in which the United States has a direct or indirect interest (including a government sponsored corporation) which securities are deemed by statute to constitute exempted securities under this title.

"(44) The term 'government securities broker' means any person engaged in the business of effecting transactions in government securities for the account of others.

"(45) The term 'government securities dealer' means any person regularly engaged in the business of buying and selling government securities for his own account, through a broker or otherwise, but does not include any person insofar as he buys or sells such

securities for his own account, either individually or in some fiduciary capacity, but not as part of a regular securities business.

"(46) The term 'person associated with a government securities broker or government securities dealer' means any partner, officer, director, or branch manager of such government securities broker or government securities dealer (or any person occupying a similar status or performing similar functions), and any other employee of such government securities broker or government securities dealer who is engaged in the management, direction, supervision or performance of any activities relating to government securities, and any person directly or indirectly controlling, controlled by, or under common control with such government securities broker or government securities dealer."

"(47) The term "registered broker or dealer" means a broker or dealer registered or required to register pursuant to section 15 or 15B of this title, except that in paragraph (3) of this subsection and sections 6 and 15A the term means such a broker or dealer and a government securities broker or government securities dealer (other than a

depository institution) registered or required to register pursuant to the Government Securities Market Improvement Act."

"(48) The term "title" in paragraph (3) of this subsection and in sections 6, 15, 15A, 17, 19, 21, and 25 includes the Government Securities Market Improvement Act of 1985."

(d) Section 15(b)(4) is amended by--

(1) inserting "(including any government securities broker or government securities dealer)" after "dealer" the first time it appears and in subparagraph (F); and

(2) inserting "government securities broker or government securities dealer," after "dealer," in clause (B)(ii) and subparagraph (C);

(e) Section 15(b)(6) is amended by inserting "(including any person associated with a government securities broker or a government securities dealer)" after "dealer" each time it appears.

(f) Section 15(c)(3) is amended by--



(1) by inserting "(other than a government securities broker or government securities dealer, except a registered broker or dealer)" after "dealer"; and

(2) by inserting "(except a government security)" after "exempted security."

(g) Section 15A(f) is amended to read as follows:

"(f)(1) Except as provided in paragraph 2 of this subsection, nothing in this section shall be construed to apply with respect to any transaction by a registered broker or dealer, in any exempted security.

"(2) A registered securities association may not adopt or enforce any rule or take any other action with respect to transactions in government securities or government securities brokers or government securities dealers, except that a registered securities association may adopt and implement rules applicable to members of such association (A) to enforce compliance of government securities brokers and government securities dealers with applicable provisions of this title, and the rules and

regulations thereunder, (B) to provide that its members and persons associated with its members shall be appropriately disciplined, in accordance with subsections (b)(7), (b)(8) and (h) of this section, for violation of such provisions or such rules, (C) to provide for reasonable inspection and examination of the books and records of government securities brokers and government securities dealers, (D) to provide for the matters described in paragraphs (b)(3), (b)(4), and (b)(5) of this section, and (E) to implement the provisions of subsection (g) of this section."

(2) Section 15A(g) is amended by inserting after paragraph (4) the following new paragraph:

"(5)(A) A registered securities association shall not deny membership to or condition the membership of, or bar any person from becoming associated with or condition the association of any person with, a government securities broker or government securities dealer under paragraph (3) of this subsection.

"(B) A registered securities association may

deny membership to, or condition the membership of, a government securities broker or government securities dealer if such government securities broker or government securities dealer (i) does not meet such regulations and standards as are prescribed by the Secretary of the Treasury under the Government Securities Market Improvement Act of 1985 or (ii) has engaged and there is a reasonable likelihood that it will again engage in any conduct or practice which would subject such government securities broker or government securities dealer to sanctions under section 15(b)(4) of this title. A registered securities association may examine and verify compliance with such regulations and standards in accordance with procedures established by the rules of the association.

"(C) A registered securities association may bar any person from becoming associated with a member or condition the association of a person with a member (i) if such person has engaged in any conduct or practice that there is a reasonable likelihood that such person will again engage in any conduct or practice which would subject such person to sanctions under

section 15(b)(6) of this title, or (ii) if such person does not agree to supply such association with such information with respect to its relationship and dealing with the member as may be specified in the rules of the association and to permit examination of its books and records to verify the accuracy thereof."

(h) Section 17(b) is amended by adding "and of every government securities broker and government securities dealer (other than a depository institution)" after "section".

(i) Section 21(a) is amended by adding before the period at the end of the first sentence, "provided, however, that the Commission may take no action to enforce the Government Securities Market Improvement Act of 1985 or regulations promulgated thereunder with respect to a depository institution as defined in section 3 of this title".

Sec. 11. Section 5136 of the Revised Statutes (12 U.S.C. 24) is amended by adding the following new paragraph:

"Ninth. To engage in the business of government securities brokers and dealers through the association or

a corporation organized under the law of any state:  
Provided that, the association shall not invest in the capital stock of such corporation in an amount in excess of 15 per centum of the capital and unimpaired surplus of the association. Such corporation shall be subject to the provisions of section 1818 of this title as if such corporation were an insured bank."

Sec. 12.(a) The Securities and Exchange Commission, in consultation with the Secretary of Housing and Urban Development, the Board of Governors of the Federal Reserve System, the Secretary of the Treasury, and such other agencies as the Commission may find appropriate, shall prepare and transmit to Congress a report regarding existing capabilities and potential future improvements for the clearance and transfer of the securities of government sponsored enterprises and of government agencies other than the Department of the Treasury. Such study shall in particular consider the means (including elimination of definitive securities) by which current costs and failure rates in the transfer of definitive securities of such entities can be reduced.

(b) The report required by subsection (a) shall be transmitted to Congress not later than one year after enactment of this Act.

Sec. 13.(a) The Secretary of the Treasury and each

appropriate regulatory agency shall, within 150 days of enactment of this Act, publish for notice and public comment such regulations as are initially required to implement this Act, which regulations shall become effective as temporary regulations 210 days after the date of enactment of this Act and as final regulations not later than one year after the date of enactment of this Act.

(b) No person may continue to act as a government securities broker or government securities dealer after nine months after enactment of this Act unless such person has been registered or has provided notice to the Commission or the appropriate regulatory agency as provided in section 2 of this Act.

## SECTION-BY-SECTION ANALYSIS

Section 1 states that the short title of the Act shall be the "Government Securities Market Improvement Act of 1985" and sets forth findings that registration and regulation of government securities brokers and government securities dealers in areas relating to financial responsibility and protection of customer securities is needed to assure continued confidence in the integrity of the market. The Act establishes a system of registration and limited regulation of government securities brokers and government securities dealers in order to provide greater assurance to purchasers, sellers and other customers for those securities of the integrity and safety of their transactions.

Section 2 establishes the system of registration.

Subsection (a) provides that each government securities broker and government securities dealer, other than those already registered as brokers or dealers with the Securities and Exchange Commission and brokers or dealers which are also depository institutions, shall register with the Commission and shall become a limited member of a self-regulatory organization registered under Section 15A of

the Securities Exchange Act of 1934 or a national securities exchange registered under section 6 of the Securities Exchange Act of 1934. The Commission is authorized to prescribe required information and documents and forms for registration.

The terms "government securities," "government securities broker," and "government securities dealer" are defined in section 9 of the Act. In general, government securities include both direct and guaranteed obligations of the United States and obligations of corporations, including for example the Federal National Mortgage Association, in which the United States has a direct or indirect interest and whose obligations are exempted securities under the Securities Exchange Act of 1934 either by statute or by designation of the Secretary of the Treasury under section 3(a)(12) of that Act. The definition also includes certain non-standard options, straddles and similar instruments on government securities. A government securities broker is any person engaged in the business of effecting transactions in government securities for the account of others. A government securities dealer is a person regularly engaged in the business of buying and selling government securities for its own account, through a broker or otherwise, but does not include someone doing so not as part of a regular securities business. It is the intent of this definition to include all persons who hold themselves out as making a market in government securities, but not to include entities primarily



engaged in other lines of business who buy and sell government securities for investment or cash management purposes.

Subsection (b) provides that each government securities broker and government securities dealer who is not required to register with the Commission under subsection (a) of this section shall provide notice to its appropriate regulatory agency of its status as a government securities broker or government securities dealer, and the appropriate regulatory agency will in turn provide notice to the Commission. "Appropriate regulatory agency" is defined in section 10 of the act to provide, generally, that the bank regulatory agencies will serve this function for institutions otherwise under their supervision. The Securities and Exchange Commission will be the appropriate regulatory agency for all other government securities brokers and government securities dealers, including those registered with the Commission under subsection (a) of this section.

Section 3 establishes a limited system of regulation of government securities brokers, government securities dealers, and depository institutions that are not government securities brokers or government securities dealers but that hold government securities for customers. Regulations are to be promulgated by the Secretary of the Treasury, in consultation with the Board of Governors of the Federal Reserve System.

Subsection (a) provides that the Secretary shall prescribe regulations for all government securities brokers and government securities dealers concerning the safeguarding and use of customer securities, credit balances and deposits. These regulations shall include regulations relating to adequate segregation of customer securities and securities that are the subject of repurchase transactions. Such rules shall not include requirements for physical delivery of securities in circumstances, such as short-term repurchase agreements, where such a requirement could have significant adverse market consequences. Those government securities brokers and government securities dealers who are not required to register with the Commission under section 2(a) would be exempt from some or all of the Secretary's regulations if the Secretary determined that the rules and standards of the appropriate regulatory agency for such were sufficient to achieve the purposes of this section.

Subsection (b) provides that the Secretary shall set additional standards of conduct for those required to register with the Commission under section 2(a) in the areas of capital adequacy, records to be made and kept and furnished, reports to be made and disseminated and requirements for annual or more frequent filing and/or audit of financial statements and other information concerning financial condition and their certification by independent accountants.

Subsection (c) requires the Secretary to establish standards for depository institutions that are not government securities brokers or government securities dealers regarding safeguarding of government securities held for customers, including in particular segregation of such securities. Again, the regulations shall not include requirements for physical delivery of securities in circumstances where such a requirement could have significant adverse market consequences. Regulations under this subsection are necessary to assure that book-entry securities, in particular, are properly safeguarded.

Subsection (d) states that in promulgating regulations under this section, the Secretary shall consult with the Federal Reserve Board.

Section 4 establishes sanctions for violations of this Act, regulations promulgated under this Act and related rules and regulations.

Subsection (a)(1) parallels the Commission's current authority to discipline government securities brokers and government securities dealers registered with the Commission under this Act and persons associated therewith as provided in section 15(b)(4) and 15(b)(6) of the Securities Exchange Act of 1934. Section 10 of this Act amends the Securities Exchange Act to include violations of this Act or

regulations promulgated under it a basis for discipline. The Commission must keep and make public a record of such sanctions.

Subsection (b) provides that the appropriate regulatory agency may, using the procedures and standards of sections 15(b)(4) and 15(b)(6) of the Securities and Exchange Act of 1934, discipline any government securities broker or government securities dealer subject to the agency's regulation and person associated therewith. In addition, violation of this Act and regulations promulgated thereunder is specifically made a violation of various banking acts. Any regulatory agency disciplining a government securities broker, government securities dealer or person associated therewith must notify the Commission after it has imposed sanctions. The Commission must keep and make public a list of such sanctions.

Subsection (c) provides for civil penalties of up to \$10,000 for violations of this Act or any regulation promulgated under the Act, which may be assessed after appropriate notice and opportunity for hearing by any appropriate regulatory agency. The appropriate regulatory agency (other than the Commission) is to notify the Commission of penalties imposed, and the Commission is to keep and make public a list of such penalties. This section is not intended to create a private right of action to enforce this Act and

regulations promulgated under the Act.

Subsection (d) authorizes the appropriate regulatory agency, after appropriate notice and opportunity for hearing, to censure or restrict the government securities activities, functions or operations of any depository institution subject to regulation under section 3(c) of this Act, or any person associated therewith who has violated any regulation promulgated under section 3(c).

Subsection (e) preserves the right of the Federal Reserve Bank of New York to require reports of and set terms and conditions of its business relationships with government securities brokers and government securities dealers.

Subsection (f) provides that nothing in this Act shall in any way restrict the authority of the Commission, the bank regulatory agencies, the Department of Housing and Urban Development and the Government National Mortgage Association to regulate, examine and supervise activities, including government securities activities, of entities otherwise under their jurisdiction, including subsidiaries of banks and thrifts. Under section 1818 of title 12, the enforcement authority of the bank regulatory agencies extends to violations of all laws, including this Act.

Section 5 provides criminal penalties of up to \$100,000

or up to five years imprisonment or both for willful violations of this Act or any regulation under this Act or any related regulation of an appropriate regulatory agency.

Section 6 authorizes the Secretary, by regulation or order, to exempt any government securities broker, government securities dealer or depository institution or class thereof from any regulation if he determines that the exemption is consistent with the purposes of the Act. Similarly, he may exempt any government securities broker or government securities dealer or class thereof from the requirement of registration.

Section 7 requires that, where appropriate, the Secretary, appropriate regulatory agencies and, if applicable, self-regulatory organizations, share information received about government securities brokers and government securities dealers and persons associated therewith.

Section 8 provides the appropriate regulatory agencies with authority to investigate violations of this Act or regulations promulgated under the Act.

Subsection (a) authorizes the appropriate regulatory agencies to take the actions necessary, including in particular the subpoena of witnesses and records, to conduct investigations into violations of this Act or

regulations promulgated under this Act.

Subsection (b) provides for judicial enforcement of subpoenas and other orders issued under subsection (a).

Subsection (c) authorizes the appropriate regulatory agencies to bring civil actions to enjoin violations of and to enforce this Act and regulations promulgated under this Act. Prior approval of the Attorney General is required if the regulatory agency does not have independent litigating authority.

Section 9 provides definitions.

Subsection (a) defines "appropriate regulatory agency" with respect to a depository institution that is not a government securities broker or government securities dealer as the bank supervisory agencies. In keeping with the definition of "depository institution," the definition also covers entities eligible to make application for insurance to the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, and the National Credit Union Administration.

Subsection (b) defines "appropriate regulatory agency" with respect to a government securities broker or government securities dealer as the bank supervisory agencies

for all banks, thrifts, and credit unions and the Securities and Exchange Commission for all others.

Subsection (c) defines "Commission" to mean the Securities and Exchange Commission.

Subsection (d) defines "depository institution" to have the meaning provided in the Monetary Control Act of 1980 and also to include certain foreign banks, commercial lending companies and branches or agencies of foreign banks.

Subsection (e) defines "government securities" as (i) securities that are direct obligations of, or obligations guaranteed as to principal or interest by, the United States, (ii) securities of corporations in which the United States has a direct or indirect interest (including government-sponsored corporations) which securities are either deemed to be "exempted securities" under the Securities Exchange Act of 1934 by statute (for example, securities of the Federal National Mortgage Association) or by designation by the Secretary under paragraph 3(a)(12) of the Securities Exchange Act of 1934 (for example, securities of the Federal Home Loan Bank System), and (iii) certain non-standardized options and similar privileges on government securities.

Subsection (f) defines "government securities broker" as any person engaged in the business of effecting



transactions in government securities for the account of others.

Subsection (g) defines "government securities dealer" as any person regularly engaged in the business of buying and selling government securities for its own account, through a broker or otherwise, but excluding persons doing so not as part of a regular securities business. It is the intent of this definition to include as government securities dealers all persons who hold themselves out as making a market in government securities but not to include entities primarily engaged in other lines of business who buy and sell government securities for investment or cash management purposes.

Subsection (h) defines "person" as not only a natural person, but also a corporation, company, partnership, association, firm, society, and joint stock company. This definition relates to entities subject to the Act and its sanctions, and not to customers of government securities brokers or government securities dealers.

Subsection (i) defines "person associated with" a government securities broker, government securities dealer, or depository institution, as any partner, officer, director or branch manager of such entity, and any other employee engaged in the management, direction, supervision or performance of any activities relating to government securities, and any

person directly or indirectly controlling, controlled by, or under common control with such entity.

Subsection (j) defines "Secretary" as the Secretary of the Treasury.

Section 10 contains conforming amendments to the Securities Exchange Act of 1934.

Subsections (a) and (b) amend section 3(a)(39) to add conduct as a government securities broker or government securities dealer (including a broker or dealer that is a depository institution) to actions for which statutory disqualification applies, and to add a bar from acting as a government securities broker or government securities dealer by an appropriate regulatory agency to the list of statutory disqualifications.

Subsection (c) amends section 3(a) by adding new definitions of "depository institution," "government securities," "government securities broker," "government securities dealer" "person associated with a government securities broker or government securities dealer," "registered broker or dealer," and "title." Except that non-standardized options (which the Commission has exempted only by regulation) are excluded from the definition of "government securities", the first five definitions conform to

those of section 9, with minor technical exceptions to conform to the style of the Securities Exchange Act. The definition of registered broker or dealer is necessary to make provisions of the Exchange Act relating to self-regulatory organizations applicable to government securities brokers and government securities dealers required to register with the Commission. The definition of "title" makes this Act and regulations promulgated under it part of the system of laws that are enforceable under the Exchange Act.

Subsection (d) amends section 15(b)(4) to include government securities brokers and government securities dealers as persons subject to sanction.

Subsection (e) amends section 15(b)(6) to include persons associated with government securities brokers and government securities dealers as persons subject to sanction.

Subsection (f) amends section 15(c)(3) to make certain that in the unusual case in which a registered broker or dealer is dealing only in government securities, the Commission's financial responsibility regulations will nevertheless apply.

Subsection (g) amends section 15A to provide for limited membership of government securities brokers and dealers in national securities associations. The national

securities associations will not have any authority over actions by a government securities broker or government securities dealer relating to other instruments not regulated under the Act, such as commercial paper.

Subsection (h) amends section 17 of the act to extend the Commission's investigatory authority explicitly to government securities brokers and government securities dealers.

Subsection (i) amends section 21 of the act to make clear that the Commission's subpoena, injunction and related powers in investigating and enforcing this Act and the regulations thereunder are applicable only with respect to those entities for which the Commission is the appropriate regulatory agency.

Section 11 amends the banking laws to provide for the establishment of statutory subsidiaries engaged in the government securities business. Such subsidiaries will be subject to section 1818 of title 12 as if they were insured banks.

Section 12 directs the Commission, in consultation with the Secretary of Housing and Urban Development, Secretary of the Treasury, the Board of Governors of the Federal Reserve System, and any other agency the Commission finds appropriate

to study the problems associated with the transfer and clearing of definitive securities of government sponsored enterprises and agencies other than the Department of the Treasury. The study is to particularly consider the means by which costs and failure rates in the transfer of these securities can be reduced. The study is due one year after enactment.

Section 13 establishes effective dates. The Secretary would be required to publish for notice and public comment the regulations initially required for implementation of the Act within 120 days of enactment. The regulations would become effective as temporary regulations within 180 days of enactment and as final regulations within one year from the date of enactment. Government securities brokers and government securities dealers not otherwise subject to regulation would be required to be registered within nine months after enactment, and others would be required to provide notice within the same time period. The civil and criminal sanctions of sections 4 and 5 of this Act will be effective with respect to any government securities broker or government securities dealer required to register or give notice who has not done so.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

December 12, 1985

## SALE OF SAVINGS BONDS AND STATE AND LOCAL GOVERNMENT SECURITIES RESUMED

Following enactment of legislation to raise the public debt limit, the Treasury authorized the Federal Reserve Banks and some 42,000 other issuing agents to resume sales of United States Savings Bonds, effective today.

The Treasury also authorized the resumption of issues of State and Local Government Series securities effective today. Subscribers for these securities who were affected by the sales suspension and still desire to obtain the securities should contact the Federal Reserve Bank or Branch for instructions for filing amended subscriptions, or they may call the Office of the Chief Counsel, Bureau of the Public Debt, on 202/376-4320.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

December 12, 1985

## RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for \$7,606 million of 13-week bills and for \$7,609 million of 26-week bills, both to be issued on December 12, 1985, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills			:	26-week bills		
	maturing March 13, 1986			:	maturing June 12, 1986		
	Discount	Investment		:	Discount	Investment	
	Rate	Rate 1/	Price	:	Rate	Rate 1/	Price
Low	7.04%	7.27%	98.220	:	7.01%	7.37%	96.456
High	7.06%	7.29%	98.215	:	7.03%	7.39%	96.446
Average	7.05%	7.28%	98.218	:	7.02%	7.38%	96.451

Tenders at the high discount rate for the 13-week bills were allotted 52%.  
Tenders at the high discount rate for the 26-week bills were allotted 66%.

## TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>	:	<u>Received</u>	<u>Accepted</u>
Boston	\$ 41,265	\$ 41,265	:	\$ 32,675	\$ 32,675
New York	19,823,605	6,858,525	:	18,282,645	7,008,655
Philadelphia	30,725	30,725	:	16,155	16,155
Cleveland	39,350	39,350	:	30,530	30,530
Richmond	41,785	41,785	:	26,775	26,775
Atlanta	41,805	41,805	:	27,740	27,740
Chicago	47,540	47,540	:	47,540	47,540
St. Louis	25,620	25,620	:	19,000	19,000
Minneapolis	13,215	13,215	:	16,050	16,050
Kansas City	43,475	43,475	:	40,305	40,305
Dallas	25,195	25,195	:	14,320	14,320
San Francisco	88,290	88,290	:	46,710	46,710
Treasury	308,975	308,975	:	282,115	282,115
<b>TOTALS</b>	<b>\$20,570,845</b>	<b>\$7,605,765</b>	<b>:</b>	<b>\$18,882,560</b>	<b>\$7,608,570</b>
<u>Type</u>					
Competitive	\$17,090,000	\$4,124,920	:	\$16,080,000	\$4,806,010
Noncompetitive	1,002,815	1,002,815	:	731,160	731,160
Subtotal, Public	\$18,092,815	\$5,127,735	:	\$16,811,160	\$5,537,170
Federal Reserve	1,974,330	1,974,330	:	1,800,000	1,800,000
Foreign Official Institutions	503,700	503,700	:	271,400	271,400
<b>TOTALS</b>	<b>\$20,570,845</b>	<b>\$7,605,765</b>	<b>:</b>	<b>\$18,882,560</b>	<b>\$7,608,570</b>

1/ Equivalent coupon-issue yield.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 12:00 NOON

December 13, 1985

## TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately \$9,000 million of 365-day Treasury bills to be dated December 26, 1985, and to mature December 26, 1986 (CUSIP No. 912794 KU 7). This issue will provide about \$425 million of new cash for the Treasury, as the maturing 52-week bill is outstanding in the amount of \$8,587 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Thursday, December 19, 1985.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. This series of bills will be issued entirely in book-entry form in a minimum amount of \$10,000 and in any higher \$5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

The bills will be issued for cash and in exchange for Treasury bills maturing December 26, 1985. In addition to the maturing 52-week bills, there are \$11,574 million of maturing 13-week and 26-week bills and \$5,010 million of maturing 78-day cash management bills. The disposition of these two latter amounts will be announced next week. Federal Reserve Banks currently hold \$2,397 million as agents for foreign and international monetary authorities, and \$4,487 million for their own account. These amounts represent the combined holdings of such accounts for the four issues of maturing bills. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rate of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold \$185 million of the original 52-week issue. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-1.



Each tender must state the par amount of bills bid for, which must be a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than \$1,000,000.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

A noncompetitive bidder may not have entered into an agreement, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned prior to the designated closing time for receipt of tenders.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills. In addition, Treasury Tax and Loan Note Option Depositaries may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

December 16, 1985

## RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for \$7,602 million of 13-week bills and for \$7,601 million of 26-week bills, both to be issued on December 19, 1985, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills			:	26-week bills		
	maturing March 20, 1986			:	maturing June 19, 1986		
	Discount	Investment		:	Discount	Investment	
	Rate	Rate 1/	Price	:	Rate	Rate 1/	Price
Low	6.95%	7.17%	98.243	:	6.98%	7.34%	96.471
High	7.04%	7.27%	98.220	:	7.03%	7.39%	96.446
Average	7.00%	7.22%	98.231	:	7.01%	7.37%	96.456

Tenders at the high discount rate for the 13-week bills were allotted 18%.  
Tenders at the high discount rate for the 26-week bills were allotted 6%.

## TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	\$ 38,560	\$ 38,560	:	\$ 22,840	\$ 22,840
New York	16,055,640	6,118,640	:	15,225,640	6,283,700
Philadelphia	28,725	28,725	:	15,520	15,520
Cleveland	44,990	44,990	:	23,790	23,790
Richmond	43,695	43,695	:	36,555	36,555
Atlanta	33,235	33,235	:	71,540	71,540
Chicago	1,607,095	386,595	:	1,716,205	451,765
St. Louis	70,630	50,630	:	79,410	39,710
Minneapolis	62,125	62,125	:	39,180	39,180
Kansas City	49,940	49,940	:	83,835	83,835
Dallas	34,195	34,195	:	25,995	25,995
San Francisco	1,181,500	411,000	:	1,054,745	251,805
Treasury	300,045	300,045	:	254,935	254,935
<b>TOTALS</b>	<b>\$19,550,375</b>	<b>\$7,602,375</b>	<b>:</b>	<b>\$18,650,190</b>	<b>\$7,601,170</b>
<u>Type</u>					
Competitive	\$16,136,020	\$4,188,020	:	\$15,652,965	\$4,603,945
Noncompetitive	1,045,220	1,045,220	:	747,105	747,105
Subtotal, Public	\$17,181,240	\$5,233,240	:	\$16,400,070	\$5,351,050
Federal Reserve	1,937,255	1,937,255	:	1,950,000	1,950,000
Foreign Official Institutions	431,880	431,880	:	300,120	300,120
<b>TOTALS</b>	<b>\$19,550,375</b>	<b>\$7,602,375</b>	<b>:</b>	<b>\$18,650,190</b>	<b>\$7,601,170</b>

An additional \$4,620 thousand of 13-week bills and an additional \$4,580 thousand of 26-week bills will be issued to foreign official institutions for new cash.

1/ Equivalent coupon-issue yield.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M.

December 17, 1985

## TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately \$15,200 million, to be issued December 26, 1985. This offering will result in a paydown for the Treasury of about \$1,375 million, as the maturing bills total \$16,584 million (including the 78-day cash management bills issued October 9, 1985, in the amount of \$5,010 million). Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Monday, December 23, 1985. The two series offered are as follows:

91-day bills (to maturity date) for approximately \$7,600 million, representing an additional amount of bills dated September 26, 1985, and to mature March 27, 1986 (CUSIP No. 912794 JY 1), currently outstanding in the amount of \$7,539 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately \$7,600 million, to be dated December 26, 1985, and to mature June 26, 1986 (CUSIP No. 912794 KM 5).

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Both series of bills will be issued entirely in book-entry form in a minimum amount of \$10,000 and in any higher \$5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

The bills will be issued for cash and in exchange for Treasury bills maturing December 26, 1985. In addition to the maturing 13-week and 26-week bills, there are \$8,587 million of maturing 52-week bills. The disposition of this latter amount was announced last week. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rates of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold \$2,145 million of the original 13-week and 26-week issues. Federal Reserve Banks currently hold \$2,330 million as agents for foreign and international monetary authorities, and \$4,523 million for their own account. These amounts represent the combined holdings of such accounts for the four issues of maturing bills. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

Each tender must state the par amount of bills bid for, which must be a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than \$1,000,000.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

A noncompetitive bidder may not have entered into an agreement, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned prior to the designated closing time for receipt of tenders.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on December 26, 1985, in cash or other immediately-available funds or in Treasury bills maturing December 26, 1985; provided, however, that settlement for tenders submitted to the Federal Reserve Bank Branch in Charlotte must be completed at that Branch on December 27, 1985, and must include one day's accrued interest if settlement is made with other than Treasury bills maturing December 26, 1985. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills. In addition, Treasury Tax and Loan Note Option Depositories may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

12/17/85

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

December 17, 1985

## RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted \$9,506 million of \$20,904 million of tenders received from the public for the 2-year notes, Series AD-1987, auctioned today. The notes will be issued December 31, 1985, and mature December 31, 1987.

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

	<u>Yield</u>	<u>Price</u>
Low	7.90% <sup>1</sup> / <sub>2</sub>	99.955
High	7.96%	99.846
Average	7.93%	99.900

Tenders at the high yield were allotted 82%.

## TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>
Boston	\$ 102,830	\$ 71,930
New York	17,800,915	8,174,135
Philadelphia	21,850	21,850
Cleveland	143,620	131,820
Richmond	86,300	82,935
Atlanta	62,770	48,175
Chicago	1,318,650	325,850
St. Louis	126,130	106,950
Minneapolis	49,830	49,830
Kansas City	106,120	104,030
Dallas	12,870	10,510
San Francisco	1,069,010	375,410
Treasury	3,065	3,065
Totals	<u>\$20,903,960</u>	<u>\$9,506,490</u>

The \$9,506 million of accepted tenders includes \$732 million of noncompetitive tenders and \$8,774 million of competitive tenders from the public.

In addition to the \$9,506 million of tenders accepted in the auction process, \$330 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional \$600 million of tenders was also accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for maturing securities.

<sup>1</sup>/<sub>2</sub> Excepting 1 tender of \$185,000.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

For Immediate Release  
December 18, 1985

Contact: Charles Powers  
566-2041

## TREASURY DEPARTMENT PROPOSES LEGISLATION RESTRICTING UNITARY TAXATION OF CORPORATIONS

The Treasury Department today proposed legislation to restrict the States' use of the worldwide unitary taxation method for corporations. The legislation would also require corporations to file a domestic disclosure "spreadsheet" with the Internal Revenue Service to assist states in administering their corporate income tax laws.

On November 8, 1985, the President, in a statement, said that it was appropriate for the Federal Government to state its support for the concept of legislation limiting State taxation of multinationals to income derived from the territory of the United States (the water's edge requirement) and addressing the question of equitable taxation of foreign source dividends.

Secretary of the Treasury James A. Baker, III, said "The continued imposition of State corporate income tax on a worldwide unitary basis has a serious adverse impact on the conduct of the foreign economic policy of the United States. Limiting the States' use of the unitary method will provide a more consistent national policy with respect to the taxation, both State and Federal, of multinational enterprises."

The legislation will prohibit states from requiring the inclusion in unitary combinations of those corporations which have less than \$10 million in business activity or conduct less than 20 percent of their business within the United States. This water's edge unitary combination limitation would exclude most foreign corporations and domestic "80/20" corporations from State taxation unless they have significant economic ties to corporations within the water's edge and are not subject to substantial foreign tax on their net income. Notwithstanding this prohibition against the mandatory use of worldwide combination, the States, if they so desire, may offer the taxpayer an unconditional election to be taxed on a worldwide combination basis.



The legislation will further require that the States shall not tax more than an equitable portion of the dividends received from those corporations excluded from the "water's edge" unitary combination. The legislation provides the States with flexibility to adopt a system of foreign dividend taxation that meets the standard of equitable treatment. Two permissible methods of treating such foreign source dividends are explicitly sanctioned: excluding at least 85 percent of the dividend from the income base, and excluding dividends to the extent that they are not subject to federal income tax by reason of a foreign tax credit. Other methods of State taxation which may satisfy the equitable treatment of foreign dividends standard established by the President are to be the subject of regulation. The legislation does not expand the rights of the States under current law to impose tax on foreign dividends.

In recognition that States currently may not have sufficient resources to audit transactions between related corporations, the Federal government will undertake certain measures to assist the States in administering their corporate income tax laws. The proposed legislation would implement several of these measures. The principal provision would require those domestic corporations with significant foreign operations to file a Federal information return detailing their tax liability in each of the States. This domestic disclosure "spreadsheet" would then be shared with the appropriate State taxing authorities. Additional changes will be made by the legislation in the information disclosure sections of the Internal Revenue Code in order that information obtained from consenting foreign countries under exchange of information agreements may be passed on to the States. The legislation would also extend taxpayer information disclosure agreements to certain agencies conducting corporate taxpayer audits on behalf of one or more States.

###

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

December 18, 1985

## RESULTS OF AUCTION OF 4-YEAR NOTES

The Department of the Treasury has accepted \$7,004 million of \$14,044 million of tenders received from the public for the 4-year notes, Series P-1989, auctioned today. The notes will be issued December 31, 1985, and mature December 31, 1989.

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

	<u>Yield</u>	<u>Price</u>
Low	8.38%	99.983
High	8.48%	99.650
Average	8.43%	99.816

Tenders at the high yield were allotted 91%.

## TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>
Boston	\$ 50,364	\$ 35,364
New York	11,856,619	6,043,369
Philadelphia	12,450	12,450
Cleveland	50,569	50,569
Richmond	27,708	26,528
Atlanta	71,325	71,325
Chicago	948,952	319,452
St. Louis	60,652	50,472
Minneapolis	23,221	23,221
Kansas City	67,357	67,357
Dallas	12,350	12,350
San Francisco	861,563	290,563
Treasury	1,318	1,318
Totals	<u>\$14,044,448</u>	<u>\$7,004,338</u>

The \$7,004 million of accepted tenders includes \$495 million of noncompetitive tenders and \$6,509 million of competitive tenders from the public.

In addition to the \$7,004 million of tenders accepted in the auction process, \$280 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional \$171 million of tenders was also accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for maturing securities.

B-411

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

December 19, 1985

## RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for \$9,011 million of 52-week bills to be issued December 26, 1985, and to mature December 26, 1986, were accepted today. The details are as follows:

### RANGE OF ACCEPTED COMPETITIVE BIDS:

	<u>Discount Rate</u>	<u>Investment Rate (Equivalent Coupon-Issue Yield)</u>	<u>Price</u>
Low -	7.03%	7.53%	92.872
High -	7.10%	7.61%	92.801
Average -	7.06%	7.57%	92.842

Tenders at the high discount rate were allotted 6%.

### TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>
Boston	\$ 5,745	\$ 5,745
New York	15,769,835	7,294,635
Philadelphia	4,675	4,675
Cleveland	17,215	17,215
Richmond	24,010	24,010
Atlanta	8,410	8,410
Chicago	1,428,990	688,790
St. Louis	8,935	8,935
Minneapolis	9,070	9,070
Kansas City	21,400	21,400
Dallas	4,840	4,840
San Francisco	2,070,350	871,850
Treasury	51,055	51,055
TOTALS	\$19,424,530	\$9,010,630
<u>Type</u>		
Competitive	\$17,401,225	\$6,987,325
Noncompetitive	238,305	238,305
Subtotal, Public	\$17,639,530	\$7,225,630
Federal Reserve	1,600,000	1,600,000
Foreign Official Institutions	185,000	185,000
TOTALS	\$19,424,530	\$9,010,630

An additional \$255,000 thousand of the bills will be issued to foreign official institutions for new cash.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

For Immediate Release  
Friday, December 20, 1985

Contact: Charley Powers  
566-2041

## TREASURY DEPARTMENT ASSESSES PENALTY AGAINST SUN BANKS, INC.

The Department of the Treasury announced today that Sun Banks, Inc., of Orlando, Florida, has agreed to a settlement of the civil liability of three bank subsidiaries for failure to report currency transactions between 1980 and 1985 as required by the Bank Secrecy Act. The three banks are Sun Bank, N.A., Orlando, Florida, Sun Bank of Miami, N.A. (recently merged with Flagship National Bank), and Sun Bank of Tampa Bay.

The settlement requires Sun Banks, Inc., to pay a civil penalty of \$156,200 based on 710 violations by the three banks. The maximum penalty that could have been imposed was \$1,000 per violation.

The settlement was announced by David D. Queen, Acting Assistant Secretary for Enforcement and Operations. Queen said that the penalty represented a complete settlement of Sun Banks, Inc.'s civil liability for the violations disclosed to Treasury. Queen added that Sun Banks, Inc., brought these violations to Treasury's attention voluntarily and cooperated with Treasury in developing the scope of its liability. This cooperation and Sun Banks' history of assistance to Federal law enforcement authorities were considered in assessing the amount of the penalty.

The Department of the Treasury has no evidence that the banks knowingly engaged in money laundering in connection with these reporting violations. Sun Banks, Inc., has instituted measures to ensure future compliance with the Bank Secrecy Act throughout its system.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

For Immediate Release  
December 23, 1985

Contact: Charles Powers  
566-2041

## FRANCIS A. KEATING, II, CONFIRMED AS ASSISTANT SECRETARY OF THE TREASURY FOR ENFORCEMENT

Francis A. Keating, II, was confirmed by the U.S. Senate as Assistant Secretary of the Treasury on December 17, 1985. He was sworn in December 20, 1985.

As Assistant Secretary of the Treasury for Enforcement, Mr. Keating coordinates Treasury-wide enforcement policy and supervises the following Treasury bureaus: the U.S. Customs Service; the U.S. Secret Service; the Bureau of Alcohol, Tobacco and Firearms and the Federal Law Enforcement Training Center.

Prior to his October 29, 1985 nomination, Mr. Keating was a partner with the law firm of Pray, Walker, Jackman, Williamson and Marlar, Tulsa, Oklahoma.

He served as U.S. Attorney, 1981-1983, for the Northern District of Oklahoma. Mr. Keating was also the Chairman of the Attorney General's Advisory Committee for U.S. Attorneys.

During the 1972-1981 period he served as a member of the Oklahoma House of Representatives, followed by service as a member of the Oklahoma State Senate. He was minority leader of the Oklahoma Senate. He is also a former State prosecutor and FBI agent.

Mr. Keating graduated from Georgetown University, Washington, D.C. with a B.A. in 1966. He received his J.D. degree from the University of Oklahoma in 1969. He is married and has three children.

Mr. Keating replaces John M. Walker, Jr., who is now a U.S. District Court Judge in New York City.

###

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

December 23, 1985

## RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for \$ 7,602 million of 13-week bills and for \$ 7,607 million of 26-week bills, both to be issued on December 26, 1985, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills			:	26-week bills		
	maturing March 27, 1986			:	maturing June 26, 1986		
	Discount	Investment		:	Discount	Investment	
	Rate	Rate 1/	Price	:	Rate	Rate 1/	Price
Low	6.98%	7.20%	98.236	:	7.05%	7.41%	96.436
High	7.05%	7.28%	98.218	:	7.07%	7.43%	96.426
Average	7.02%	7.24%	98.226	:	7.05%	7.41%	96.436

Tenders at the high discount rate for the 13-week bills were allotted 26%.  
Tenders at the high discount rate for the 26-week bills were allotted 62%.

## TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>	:	<u>Received</u>	<u>Accepted</u>
Boston	\$ 38,930	\$ 38,930	:	\$ 26,055	\$ 26,055
New York	16,679,485	6,568,805	:	19,715,035	6,943,535
Philadelphia	29,935	29,935	:	8,765	8,765
Cleveland	46,775	46,775	:	20,805	20,805
Richmond	39,900	39,900	:	41,420	37,430
Atlanta	47,005	45,005	:	25,750	25,750
Chicago	1,571,145	308,545	:	1,472,215	129,715
St. Louis	69,685	29,685	:	93,715	52,955
Minneapolis	14,040	14,040	:	15,635	15,635
Kansas City	50,955	50,955	:	163,045	96,635
Dallas	31,200	31,200	:	15,540	15,540
San Francisco	515,555	137,815	:	567,545	36,545
Treasury	260,800	260,800	:	197,430	197,430
<b>TOTALS</b>	<b>\$19,395,410</b>	<b>\$7,602,390</b>	<b>:</b>	<b>\$22,362,955</b>	<b>\$7,606,795</b>
<u>Type</u>					
Competitive	\$16,571,510	\$4,778,490	:	\$19,227,640	\$4,471,480
Noncompetitive	1,007,250	1,007,250	:	648,515	648,515
Subtotal, Public	\$17,578,760	\$5,785,740	:	\$19,876,155	\$5,119,995
Federal Reserve	1,523,350	1,523,350	:	1,400,000	1,400,000
Foreign Official Institutions	293,300	293,300	:	1,086,800	1,086,800
<b>TOTALS</b>	<b>\$19,395,410</b>	<b>\$7,602,390</b>	<b>:</b>	<b>\$22,362,955</b>	<b>\$7,606,795</b>

1/ Equivalent coupon-issue yield.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 11:00 A.M.

December 24, 1985

## TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately \$15,200 million, to be issued January 2, 1986. This offering will provide about \$1,300 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of \$13,901 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Monday, December 30, 1985. The two series offered are as follows:

91-day bills (to maturity date) for approximately \$7,600 million, representing an additional amount of bills dated October 3, 1985, and to mature April 3, 1986 (CUSIP No. 912794 JZ 8), currently outstanding in the amount of \$6,860 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately \$7,600 million, to be dated January 2, 1986, and to mature July 3, 1986 (CUSIP No. 912794 KV 5).

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Both series of bills will be issued entirely in book-entry form in a minimum amount of \$10,000 and in any higher \$5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

The bills will be issued for cash and in exchange for Treasury bills maturing January 2, 1986. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rates of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. Federal Reserve Banks currently hold \$1,326 million as agents for foreign and international monetary authorities, and \$3,239 million for their own account. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

Each tender must state the par amount of bills bid for, which must be a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than \$1,000,000.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

A noncompetitive bidder may not have entered into an agreement, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned prior to the designated closing time for receipt of tenders.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.



Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills. In addition, Treasury Tax and Loan Note Option Depositories may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

For Immediate Release  
Monday, December 30, 1985

Contact: Art Siddon  
566-5252

## TREASURY DEPARTMENT ASSESSES PENALTY AGAINST NORSTAR BANCORP INC.

The Department of the Treasury announced today that Norstar Bancorp Inc., of Albany, New York, has agreed to a settlement of the civil liability of three of its bank subsidiaries for failure to report currency transactions between 1980 and 1985 as required by the Bank Secrecy Act. The three banks are Norstar Bank of Upstate NY, Albany, New York, as successor to Oneida National Bank, Liberty Norstar, N.A., Buffalo, New York, and Norstar Bank of Maine, Bangor, Maine.

The settlement requires Norstar Bancorp Inc. to pay a civil penalty of \$269,904 based on 1227 violations by the three banks. The maximum penalty that could have been imposed was \$1,000 per violation.

The settlement was announced by David D. Queen, Deputy Assistant Secretary for Enforcement. Queen said that the penalty represented a complete settlement of Norstar Bancorp Inc.'s civil liability for the violations by the three banks disclosed to Treasury. Queen added that Norstar Bancorp Inc. brought these violations to Treasury's attention voluntarily and cooperated with Treasury in developing the scope of its liability.

The Department of the Treasury has no evidence that the banks knowingly engaged in money laundering in connection with these reporting violations. Norstar Bancorp has instituted measures to ensure future compliance with the Bank Secrecy Act throughout its system.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

December 30, 1985

## RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for \$7,602 million of 13-week bills and for \$7,613 million of 26-week bills, both to be issued on January 2, 1986, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills			:	26-week bills		
	maturing April 3, 1986			:	maturing July 3, 1986		
	Discount	Investment		:	Discount	Investment	
	Rate	Rate 1/	Price	:	Rate	Rate 1/	Price
Low	6.98% <sup>a/</sup>	7.20%	98.236	:	7.04% <sup>b/</sup>	7.40%	96.441
High	7.05%	7.28%	98.218	:	7.08%	7.44%	96.421
Average	7.04%	7.27%	98.220	:	7.07%	7.43%	96.426

a/ Excepting 1 tender of \$1,145,000.

b/ Excepting 1 tender of \$1,000,000.

Tenders at the high discount rate for the 13-week bills were allotted 91%.

Tenders at the high discount rate for the 26-week bills were allotted 61%.

## TENDERS RECEIVED AND ACCEPTED

(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	\$ 36,090	\$ 36,090	:	\$ 30,080	\$ 30,080
New York	16,845,015	6,522,615	:	18,411,800	6,791,055
Philadelphia	58,545	58,545	:	11,740	11,740
Cleveland	56,560	56,560	:	25,155	25,155
Richmond	49,575	49,575	:	55,540	45,540
Atlanta	50,630	50,630	:	92,760	37,760
Chicago	1,247,930	124,680	:	1,327,905	177,975
St. Louis	89,625	54,175	:	86,970	49,240
Minneapolis	11,390	11,390	:	13,495	13,495
Kansas City	52,750	52,750	:	62,395	62,395
Dallas	37,800	27,800	:	26,125	16,125
San Francisco	836,400	227,400	:	773,505	47,115
Treasury	329,590	329,590	:	305,430	305,430
<b>TOTALS</b>	<b>\$19,701,900</b>	<b>\$7,601,800</b>	<b>:</b>	<b>\$21,222,900</b>	<b>\$7,613,105</b>
<u>Type</u>					
Competitive	\$16,688,490	\$4,588,390	:	\$18,471,725	\$4,861,930
Noncompetitive	1,137,600	1,137,600	:	820,575	820,575
Subtotal, Public	\$17,826,090	\$5,725,990	:	\$19,292,300	\$5,682,505
Federal Reserve	1,639,210	1,639,210	:	1,600,000	1,600,000
Foreign Official Institutions	236,600	236,600	:	330,600	330,600
<b>TOTALS</b>	<b>\$19,701,900</b>	<b>\$7,601,800</b>	<b>:</b>	<b>\$21,222,900</b>	<b>\$7,613,105</b>

1/ Equivalent coupon-issue yield.

federal financing bank NEWS

WASHINGTON, D.C. 20220

Press 566-2041  
FFB 566-2468

FOR IMMEDIATE RELEASE

December 30, 1985

FEDERAL FINANCING BANK ACTIVITY

Francis X. Cavanaugh, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of October 1985.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled \$153.6 billion on October 31, 1985, posting an increase of less than \$0.1 billion from the level on September 30, 1985. A decline of \$0.2 billion in holdings of agency assets partially offset increases of \$0.2 billion in holdings of agency debt and \$0.1 billion in holdings of agency-guaranteed debt. FFB made 289 disbursements during October.

Attached to this release are tables presenting FFB October loan activity and FFB holdings as of October 31, 1985.

# 0 #

## OCTOBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTFRFST RATE (semi- annual)	INTEREST RATE (other than semi-annual)
<u>ON-BUDGET AGENCY DEBT</u>					
<u>TENNESSEE VALLEY AUTHORITY</u>					
Advance #521	10/2	\$ 116,000,000.00	10/9/85	7.385%	
Advance #522	10/7	204,000,000.00	10/14/85	7.335%	
Advance #523	10/9	231,000,000.00	10/16/85	7.515%	
Advance #524	10/14	233,000,000.00	10/21/85	7.545%	
Advance #525	10/15	19,000,000.00	10/21/85	7.545%	
Advance #526	10/16	192,000,000.00	10/24/85	7.565%	
Advance #527	10/21	226,000,000.00	10/28/85	7.555%	
Advance #528	10/24	190,000,000.00	11/1/85	7.585%	
Advance #529	10/28	244,000,000.00	11/4/85	7.595%	
Advance #530	10/31	140,000,000.00	11/7/85	7.545%	
<u>NATIONAL CREDIT UNION ADMINISTRATION</u>					
<u>Central Liquidity Facility</u>					
+Note #359	10/9	3,000,000.00	1/7/86	7.515%	
+Note #360	10/10	1,500,000.00	1/8/86	7.545%	
+Note #361	10/15	40,000,000.00	1/13/86	7.555%	
+Note #362	10/21	550,000.00	1/17/86	7.565%	
+Note #363	10/28	6,975,000.00	1/27/86	7.615%	
+Note #364	10/28	5,000,000.00	1/27/86	7.615%	
+Note #365	10/29	9,041,000.00	1/27/86	7.585%	
<u>OFF-BUDGET AGENCY DEBT</u>					
<u>UNITED STATES RAILWAY ASSOCIATION</u>					
*Note #33	10/1	78,250,488.70	12/31/85	7.395%	
<u>GOVERNMENT - GUARANTEED LOANS</u>					
<u>DEPARTMENT OF DEFENSE</u>					
<u>Foreign Military Sales</u>					
Jordan 11	10/1	588,793.24	11/15/92	9.262%	
Tunisia 16	10/2	23,448.00	2/5/96	10.425%	
Colombia 7	10/2	300,000.00	9/5/91	7.585%	
Liberia 10	10/3	225,912.00	5/15/95	10.395%	
Indonesia 10	10/3	200,000.00	3/20/93	9.345%	
Jordan 11	10/3	1,899,060.00	11/15/92	9.438%	
Dominican Republic 8	10/3	356,900.00	4/30/96	9.677%	
Turkey 17	10/4	3,539,130.00	5/31/13	10.865%	
Greece 15	10/4	2,967,063.20	6/15/12	10.575%	
Turkey 17	10/4	727,857.96	5/31/13	10.865%	
Turkey 16	10/8	90,112.18	5/31/13	10.975%	
Turkey 17	10/8	609,994.00	11/30/13	10.975%	
Jordan 11	10/8	638,125.00	11/15/92	9.725%	
Morocco 9	10/9	36,742.69	3/31/94	10.415%	
Peru 10	10/9	427,033.60	4/10/96	10.422%	
Greece 15	10/17	633,471.02	6/15/12	10.515%	
Morocco 13	10/17	12,081.40	5/31/96	10.105%	
Philippines 11	10/17	2,691,678.00	9/12/96	9.725%	
Bolivia 2	10/18	386,310.00	11/22/95	10.293%	
Greece 14	10/18	545,008.83	4/30/11	10.745%	
Indonesia 10	10/18	1,163,750.29	3/20/93	9.419%	
Thailand 12	10/18	8,000,000.00	3/20/96	10.058%	
Turkey 17	10/18	376,971.60	11/30/13	10.765%	
Turkey 17	10/21	2,658,805.01	11/30/13	10.715%	
Peru 10	10/22	249,161.00	4/10/96	10.235%	
Jordan 11	10/23	1,899,060.00	11/15/92	9.725%	
Portugal 1	10/23	1,633,468.00	9/10/94	9.815%	
Indonesia 10	10/23	2,157,258.00	3/20/93	9.499%	

+rollover

\*maturity extension

## OCTOBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi- annual)	INTEREST RATE (other than semi-annual)
<u>Foreign Military Sales (Cont'd)</u>					
Greece 15	10/25	\$ 771,697.50	6/15/12	10.405%	
Thailand 12	10/25	1,688,337.50	3/20/96	10.100%	
Indonesia 10	10/29	751,895.00	3/20/93	9.722%	
Jordan 11	10/29	878,823.13	11/15/92	9.778%	
Philippines 10	10/29	226,654.09	7/15/92	9.825%	
Thailand 12	10/30	470,182.00	3/20/96	10.135%	
Turkey 17	10/30	17,184,545.51	11/30/13	10.630%	
Botswana 2	10/31	4,567.26	1/15/88	7.545%	
Jordan 11	10/31	14,420.00	11/15/92	9.475%	
<u>DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</u>					
<u>Community Development</u>					
*Saginaw, MI	10/1	1,500,000.00	10/1/91	9.691%	9.926% ann.
*Westland, MI	10/1	625,000.00	10/1/87	8.706%	8.895% ann.
Newport News, VA	10/4	87,000.00	2/15/86	7.575%	
Council Bluffs, IA	10/4	1,180,700.00	5/31/86	7.865%	7.939% ann.
Santa Ana, CA	10/7	1,533,750.00	8/15/86	7.985%	8.118% ann.
Baltimore, MD	10/7	500,000.00	1/2/04	10.595%	10.876% ann.
Biloxi, MS	10/9	32,600.00	5/1/87	8.745%	8.936% ann.
Lynn, MA	10/9	189,874.14	8/15/86	8.085%	8.220% ann.
Lynn, MA	10/17	166,686.26	8/15/86	8.055%	8.184% ann.
Biloxi, MS	10/22	166,600.00	5/1/87	8.615%	8.801% ann.
Lorain, OH	10/22	1,000,000.00	11/1/85	7.565%	
Newport News, VA	10/22	122,000.00	2/15/86	7.675%	
St. Louis, MO	10/22	1,000,000.00	2/15/86	7.675%	
Newport News, VA	10/24	373,500.00	2/15/86	7.685%	
Biloxi, MS	10/25	270,000.00	5/1/87	8.685%	8.874% ann.
Long Beach, CA	10/25	160,000.00	8/1/86	8.085%	8.200% ann.
Louisville, KY	10/25	900,000.00	2/1/87	8.465%	8.644% ann.
Santa Ana, CA	10/25	420,000.00	8/15/86	8.095%	8.220% ann.
Brownsville, TX	10/30	543,000.00	9/1/86	8.035%	8.165% ann.
Jersey City, NJ	10/30	2,500,000.00	10/1/86	8.085%	8.234% ann.
<u>NATIONAL AERONAUTICS &amp; SPACE ADMINISTRATION</u>					
+Space Communications Company	10/1	77,215,970.48	10/1/86	8.135%	8.300% ann.
<u>DEPARTMENT OF THE NAVY</u>					
<u>Defense Production Act</u>					
Gila River Indian Community	10/29	392,688.55	10/1/92	9.846%	9.728% qtr.
<u>Ship Lease Financing</u>					
+Buck	10/15	47,642,729.54	1/15/86	7.565%	
+Buck	10/15	20,647,270.46	10/17/85	7.545%	
+Darnell	10/15	44,561,684.08	1/15/86	7.565%	
+Darnell	10/15	20,746,315.92	10/23/85	7.545%	
+Hauge	10/15	127,806,502.52	1/15/86	7.565%	
+Baugh	10/15	124,202,449.12	1/15/86	7.565%	
+Anderson	10/15	120,680,368.76	1/15/86	7.565%	
+Fisher	10/15	117,268,592.12	1/15/86	7.565%	
+Fisher Container	10/15	1,584,418.71	1/15/86	7.565%	
+Bonnyman	10/15	124,086,023.84	1/15/86	7.565%	
+Bonnyman Container	10/15	1,584,382.08	1/15/86	7.565%	
+Kocak	10/15	106,462,912.85	1/15/86	7.565%	
+Obregon	10/15	107,879,688.62	1/15/86	7.565%	
+Pless	10/15	105,919,489.26	1/15/86	7.565%	
+Pless Container	10/15	2,330,000.00	1/15/86	7.565%	
+Bobo	10/15	118,839,782.17	1/15/86	7.565%	
+Bobo Container	10/15	2,200,359.00	1/15/86	7.565%	
+Williams	10/15	116,422,407.03	1/15/86	7.565%	

\*maturity extension  
+rollover

## OCTOBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST	INTEREST
				RATE (semi- annual)	RATE (other than semi-annual)
<u>Ship Lease Financing (Cont'd)</u>					
+Williams Container	10/15	\$ 2,200,359.00	1/15/86	7.565%	
<u>RURAL ELECTRIFICATION ADMINISTRATION</u>					
*S. Mississippi Electric #171	10/1	11,159,000.00	10/1/87	9.005%	8.906% qtr.
Sho Me Power #164	10/1	950,000.00	12/31/19	10.732%	10.592% qtr.
*Corn Belt Power #94	10/1	260,000.00	12/31/13	10.747%	10.606% qtr.
Cajun Electric #263	10/2	30,000,000.00	12/31/16	10.661%	10.523% qtr.
*Big Rivers Electric #58	10/2	1,369,000.00	12/31/12	10.722%	10.582% qtr.
*Big Rivers Electric #91	10/2	355,000.00	12/31/12	10.722%	10.582% qtr.
Tex-La Electric #208	10/4	3,455,000.00	12/31/19	10.742%	10.602% qtr.
*Corn Belt Power #55	10/7	105,000.00	12/31/13	10.787%	10.640% qtr.
*United Power #67	10/7	6,295,000.00	10/6/88	9.395%	9.287% qtr.
*East River Electric #117	10/8	1,600,000.00	12/31/15	10.844%	10.701% qtr.
*Colorado Ute Electric #71	10/8	548,928.15	10/8/87	9.095%	8.994% qtr.
*Western Illinois Power #162	10/9	6,715,000.00	12/31/15	10.798%	10.656% qtr.
*Sunflower Electric #174	10/9	10,000,000.00	10/9/87	9.085%	8.984% qtr.
*Wabash Valley Power #104	10/9	5,775,000.00	10/9/87	9.085%	8.984% qtr.
*Wolverine Valley Power #100	10/10	1,559,000.00	12/31/87	9.172%	9.069% qtr.
*Wolverine Valley Power #101	10/10	1,968,000.00	12/31/87	9.172%	9.069% qtr.
*Glacier State Telephone #181	10/10	102,000.00	10/15/87	9.095%	8.994% qtr.
United Power #67	10/11	200,000.00	12/31/13	10.785%	10.643% qtr.
United Power #129	10/11	2,600,000.00	12/31/13	10.785%	10.643% qtr.
New Hampshire Electric #270	10/11	466,000.00	12/31/17	10.775%	10.634% qtr.
*Wabash Valley Power #206	10/11	6,805,000.00	10/13/87	9.085%	8.984% qtr.
*Wolverine Power #234	10/11	6,848,000.00	10/31/87	9.085%	8.984% qtr.
*Sho Me Power #164	10/15	490,000.00	10/15/87	9.085%	8.984% qtr.
*Colorado Ute Electric #168	10/15	267,957.00	10/15/87	9.085%	8.984% qtr.
*Central Electric #131	10/15	115,000.00	10/15/87	9.085%	8.984% qtr.
*Wolverine Power #101	10/15	483,000.00	12/31/87	9.152%	9.050% qtr.
*Wolverine Power #182	10/15	2,595,000.00	10/13/88	9.485%	9.375% qtr.
*Wolverine Power #183	10/15	3,316,000.00	10/13/88	9.485%	9.375% qtr.
*Brazos Electric #108	10/15	242,000.00	1/2/18	10.771%	10.630% qtr.
*Brazos Electric #230	10/15	2,117,000.00	1/2/18	10.771%	10.630% qtr.
*Cajun Electric #197	10/15	20,000,000.00	1/2/18	10.771%	10.630% qtr.
Deseret G&T #211	10/15	8,626,000.00	10/15/87	9.085%	8.984% qtr.
Vermont Electric #309	10/15	1,532,000.00	1/2/18	10.764%	10.623% qtr.
*Central Louisiana Tele. #34	10/15	261,000.00	12/31/15	10.776%	10.635% qtr.
*Oglethorpe Power #74	10/15	11,563,000.00	12/31/15	10.776%	10.635% qtr.
*Oglethorpe Power #150	10/15	15,754,000.00	12/31/15	10.776%	10.635% qtr.
Central Iowa Power #295	10/16	4,447,000.00	1/2/18	10.724%	10.584% qtr.
*New Hampshire Electric #192	10/17	1,250,000.00	1/2/18	10.686%	10.547% qtr.
Oglethorpe Power #246	10/17	19,866,000.00	12/31/19	10.681%	10.542% qtr.
*Oglethorpe Power #246	10/21	16,993,000.00	1/2/18	10.599%	10.462% qtr.
*Cajun Electric #180	10/21	54,000,000.00	12/31/15	10.602%	10.465% qtr.
*Western Illinois Power #225	10/21	13,782,000.00	12/31/17	10.599%	10.462% qtr.
*Big Rivers Electric #58	10/21	4,407,000.00	12/31/12	10.599%	10.462% qtr.
*Big Rivers Electric #91	10/21	1,790,000.00	12/31/12	10.599%	10.462% qtr.
*Sunflower Electric #174	10/21	2,800,000.00	10/21/87	8.955%	8.577% qtr.
*Colorado Ute Electric #78	10/22	900,000.00	12/31/87	9.016%	8.917% qtr.
Tex-La Electric #208	10/23	1,402,000.00	12/31/19	10.544%	10.409% qtr.
*Sunflower Electric #174	10/23	25,000,000.00	10/23/87	8.925%	8.828% qtr.
*Colorado Ute Electric #168	10/24	632,304.00	10/26/87	8.965%	8.867% qtr.
*Basin Electric #137	10/28	40,000,000.00	12/3/85	7.595%	
Wolverine Power #101	10/28	380,000.00	12/31/87	9.073%	8.972% qtr.
*Wabash Valley Power #206	10/29	3,218,000.00	10/29/87	9.035%	8.935% qtr.
Chugach Electric #257	10/30	12,645,000.00	12/31/87	9.035%	8.935% qtr.
North Carolina Electric #268	10/30	2,498,000.00	12/31/17	10.523%	10.388% qtr.
*Basin Electric #87	10/30	558,000.00	12/3/85	7.575%	
*Big Rivers Electric #58	10/30	945,000.00	12/31/12	10.532%	10.397% qtr.
*Big Rivers Electric #91	10/30	305,000.00	12/31/12	10.532%	10.397% qtr.
*Upper Missouri G&T #172	10/30	368,000.00	10/30/87	8.945%	8.847% qtr.
Basin Electric #232	10/31	19,885,000.00	12/3/85	7.545%	

+rollover

\*maturity extension

## FEDERAL FINANCING BANK

## OCTOBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi- annual)	INTEREST RATE (other than semi-annual)
<u>RURAL ELECTRIFICATION ADMINISTRATION (Cont'd)</u>					
Kamo Electric #209	10/31	\$ 3,842,000.00	12/31/87	8.885%	8.788% qtr.
Kamo Electric #266	10/31	7,952,000.00	12/31/87	8.869%	8.773% qtr.
*Basin Electric #232	10/31	1,529,000.00	12/3/85	7.545%	
*Big Rivers Electric #91	10/31	8,355,000.00	12/31/13	10.420%	10.288% qtr.
*Corn Belt Power #138	10/31	94,000.00	10/31/87	8.805%	8.710% qtr.
*Central Electric #243	10/31	3,235,000.00	10/31/87	8.805%	8.710% qtr.
*Tex-La Electric #208	10/31	650,000.00	1/2/10	10.416%	10.284% qtr.
<u>SMALL BUSINESS ADMINISTRATION</u>					
<u>State &amp; Local Development Company Debentures</u>					
S. Central Kansas Ec. Dev.	10/9	13,000.00	10/1/00	10.521%	
Area Investment & Dev. Corp.	10/9	39,000.00	10/1/00	10.521%	
Areawide Dev. Corp.	10/9	52,000.00	10/1/00	10.521%	
Region Nine Dev. Corp.	10/9	56,000.00	10/1/00	10.521%	
Iowa Business Growth Co.	10/9	61,000.00	10/1/00	10.521%	
Worcester Business Dev. Corp.	10/9	76,000.00	10/1/00	10.521%	
Mentor Ec. Assistance Corp.	10/9	78,000.00	10/1/00	10.521%	
Central Ozarks Dev., Inc.	10/9	81,000.00	10/1/00	10.521%	
Mid-Atlantic CDC	10/9	135,000.00	10/1/00	10.521%	
Gr. Metro. Chicago Dev. Corp.	10/9	138,000.00	10/1/00	10.521%	
Columbus Countywide Dev. Corp.	10/9	149,000.00	10/1/00	10.521%	
Concord Regional Dev. Corp.	10/9	170,000.00	10/1/00	10.521%	
St. Louis Local Dev. Co.	10/9	293,000.00	10/1/00	10.521%	
Evergreen Community Dev. Assoc.	10/9	328,000.00	10/1/00	10.521%	
Wisconsin B.D.F. Corp.	10/9	331,000.00	10/1/00	10.521%	
St. Louis County L.D. Co.	10/9	396,000.00	10/1/00	10.521%	
Ocean State B.D.A., Inc.	10/9	434,000.00	10/1/00	10.521%	
Wisconsin B.D.F. Corp.	10/9	498,000.00	10/1/00	10.521%	
CCD Bus. Dev. Corp.	10/9	500,000.00	10/1/00	10.521%	
Mid City Pioneer Corp.	10/9	500,000.00	10/1/00	10.521%	
Oshkosh Com. Dev. Corp., Inc.	10/9	500,000.00	10/1/00	10.521%	
San Diego County L.D. Corp.	10/9	500,000.00	10/1/00	10.521%	
Cleveland Area Dev. Fin. Corp.	10/9	500,000.00	10/1/00	10.521%	
Central Ozarks Dev., Inc.	10/9	19,000.00	10/1/05	10.729%	
Green Hills Rural Dev., Inc.	10/9	30,000.00	10/1/05	10.729%	
Crossroads EDC of St Charles	10/9	39,000.00	10/1/05	10.729%	
Verd-Ark-Ca Dev. Corp.	10/9	53,000.00	10/1/05	10.729%	
Capital Region Bus. Corp.	10/9	54,000.00	10/1/05	10.729%	
Largo Progress, Inc.	10/9	55,000.00	10/1/05	10.729%	
Greater Kenosha Dev. Corp.	10/9	76,000.00	10/1/05	10.729%	
Gr. Salt Lake Bus. District	10/9	79,000.00	10/1/05	10.729%	
St. Louis Local Dev. Co.	10/9	82,000.00	10/1/05	10.729%	
City-Wide Sm. Bus. Dev. Corp.	10/9	84,000.00	10/1/05	10.729%	
Tulare County Ec. Dev. Corp.	10/9	89,000.00	10/1/05	10.729%	
Clay County Dev. Corp.	10/9	95,000.00	10/1/05	10.729%	
Panhandle Area Council, Inc.	10/9	95,000.00	10/1/05	10.729%	
Coastal A.D.D. Authority, Inc.	10/9	99,000.00	10/1/05	10.729%	
Panhandle Area Council, Inc.	10/9	105,000.00	10/1/05	10.729%	
Northwest Piedmont Dev. Corp.	10/9	106,000.00	10/1/05	10.729%	
Greater Salt Lake Bus. Dis.	10/9	109,000.00	10/1/05	10.729%	
Butte County Overall E.D., Inc.	10/9	115,000.00	10/1/05	10.729%	
Tulare County Ec. Dev. Corp.	10/9	115,000.00	10/1/05	10.729%	
No. Va. LD Co., Inc.	10/9	119,000.00	10/1/05	10.729%	
Granite State Ec. Dev. Corp.	10/9	126,000.00	10/1/05	10.729%	
St. Louis County LD Co.	10/9	126,000.00	10/1/05	10.729%	
Tulare County Ec. Dev. Corp.	10/9	127,000.00	10/1/05	10.729%	
Kansas City Corp. for Ind. Dev.	10/9	135,000.00	10/1/05	10.729%	
Ark-Tex Regional Dev. Co., Inc.	10/9	139,000.00	10/1/05	10.729%	
Western Wisconsin Dev. Corp.	10/9	140,000.00	10/1/05	10.729%	
Amador Economic Dev. Corp.	10/9	147,000.00	10/1/05	10.729%	
Georgia Mountains R.E.D. Corp.	10/9	156,000.00	10/1/05	10.729%	

\*maturity extension



## OCTOBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi- annual)	INTEREST RATE (other than semi-annual)
<u>State &amp; Local Development Company Debentures (Cont'd)</u>					
Wisconsin B.D.F. Corp.	10/9	\$ 200,000.00	10/1/05	10.729%	
Ocean State B.D.A., Inc.	10/9	210,000.00	10/1/05	10.729%	
Tucson Local Dev. Corp.	10/9	226,000.00	10/1/05	10.729%	
Central Ozarks Dev., Inc.	10/9	230,000.00	10/1/05	10.729%	
Ohio Statewide Dev. Co.	10/9	231,000.00	10/1/05	10.729%	
Greater Southwest Kansas CDC	10/9	264,000.00	10/1/05	10.729%	
E.D.F. of Sacramento, Inc.	10/9	271,000.00	10/1/05	10.729%	
Gr. Salt Lake Bus. District	10/9	279,000.00	10/1/05	10.729%	
Crossroads EDC of St. Charles	10/9	286,000.00	10/1/05	10.729%	
Bay Colony Development Corp.	10/9	294,000.00	10/1/05	10.729%	
Texas Panhandle Reg. Dev. Corp.	10/9	298,000.00	10/1/05	10.729%	
Pioneer Country Dev., Inc.	10/9	300,000.00	10/1/05	10.729%	
East Cen. Michigan Dev. Corp.	10/9	409,000.00	10/1/05	10.729%	
E.D.F. of Sacramento, Inc.	10/9	442,000.00	10/1/05	10.729%	
Minneapolis 503 Ec. Dev. Co.	10/9	458,000.00	10/1/05	10.729%	
Indiana Statewide CDC	10/9	462,000.00	10/1/05	10.729%	
Eastern Maine Dev. District	10/9	466,000.00	10/1/05	10.729%	
S.C. Ill. Reg. P. & D. Comm.	10/9	500,000.00	10/1/05	10.729%	
St. Louis County LD Co.	10/9	500,000.00	10/1/05	10.729%	
Jefferson County LD Corp.	10/9	53,000.00	10/1/10	10.839%	
Central Ozarks Dev., Inc.	10/9	59,000.00	10/1/10	10.839%	
Fayetteville Progress, Inc.	10/9	63,000.00	10/1/10	10.839%	
Louisville Ec. Dev. Corp.	10/9	69,000.00	10/1/10	10.839%	
E.D.C. of Jefferson County	10/9	89,000.00	10/1/10	10.839%	
Warren Redev. & Plan. Corp.	10/9	91,000.00	10/1/10	10.839%	
San Diego County LD Corp.	10/9	96,000.00	10/1/10	10.839%	
La Habra LD Co., Inc.	10/9	120,000.00	10/1/10	10.839%	
Massachusetts CD Corp.	10/9	126,000.00	10/1/10	10.839%	
Evergreen Community Dev. Assoc.	10/9	130,000.00	10/1/10	10.839%	
Warren Redev. & Plan. Corp.	10/9	141,000.00	10/1/10	10.839%	
Columbus Countywide Dev. Corp.	10/9	143,000.00	10/1/10	10.839%	
Bay Area Employment Dev. Co.	10/9	143,000.00	10/1/10	10.839%	
Pioneer County Dev., Inc.	10/9	147,000.00	10/1/10	10.839%	
Evergreen Community Dev. Assoc.	10/9	161,000.00	10/1/10	10.839%	
Verd-Ark-Ca Dev. Corp.	10/9	161,000.00	10/1/10	10.839%	
Nevada State Dev. Corp.	10/9	174,000.00	10/1/10	10.839%	
Bay Area Employment Dev. Co.	10/9	174,000.00	10/1/10	10.839%	
United Communities CD Corp.	10/9	177,000.00	10/1/10	10.839%	
Granite State Ec. Dev. Corp.	10/9	179,000.00	10/1/10	10.839%	
Columbus Countywide Dev. Corp.	10/9	179,000.00	10/1/10	10.839%	
E.D.F. of Sacramento, Inc.	10/9	182,000.00	10/1/10	10.839%	
No. Va. LD Co., Inc.	10/9	193,000.00	10/1/10	10.839%	
St. Paul 503 Dev. Co.	10/9	198,000.00	10/1/10	10.839%	
San Diego County LD Corp.	10/9	209,000.00	10/1/10	10.839%	
No. Va. LD Co., Inc.	10/9	216,000.00	10/1/10	10.839%	
Gr. Hartford B.D. Center, Inc.	10/9	235,000.00	10/1/10	10.839%	
Bay Area Bus. Dev. Co.	10/9	263,000.00	10/1/10	10.839%	
Evergreen Community Dev. Assoc.	10/9	268,000.00	10/1/10	10.839%	
Midland County 503 Corp.	10/9	357,000.00	10/1/10	10.839%	
Old Colorado City Dev. Co.	10/9	358,000.00	10/1/10	10.839%	
Community E.D.C. of Colorado	10/9	373,000.00	10/1/10	10.839%	
Bay Area Bus. Dev. Co.	10/9	422,000.00	10/1/10	10.839%	
Texas Cert. Dev. Co., Inc.	10/9	466,000.00	10/1/10	10.839%	
Ark-Tex Regional Dev. Co., Inc.	10/9	500,000.00	10/1/10	10.839%	
Phoenix LD Corp.	10/9	500,000.00	10/1/10	10.839%	
Neuse River Dev. Auth., Inc.	10/9	500,000.00	10/1/10	10.839%	
<u>Small Business Investment Company Debentures</u>					
Advent V Capital Co., LP	10/16	6,000,000.00	10/1/88	9.465%	
Edwards Capital Company	10/16	500,000.00	10/1/95	10.465%	
Hanco Capital Corporation	10/16	2,000,000.00	10/1/95	10.465%	
RIHT Capital Corporation	10/16	2,000,000.00	10/1/95	10.465%	
Advent Industrial Cap. Co. LP	10/30	1,000,000.00	10/1/90	9.865%	

## FEDERAL FINANCING BANK

## OCTOBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi- annual)	INTEREST RATE (other than semi-annual)
<u>Small Business Investment Company Debentures (Cont'd)</u>					
Round Table Capital Corp.	10/30	\$ 500,000.00	10/1/90	9.865%	
Advent Atlantic Cap. Co. LP	10/30	3,500,000.00	10/1/92	10.285%	
Advent Industrial Cap. Co. LP	10/30	1,000,000.00	10/1/92	10.285%	
Chestnut Capital Int'l. II LP	10/30	2,500,000.00	10/1/92	10.285%	
Capital Marketing Corporation	10/30	2,500,000.00	10/1/95	10.405%	
Clarion Capital Corporation	10/30	2,000,000.00	10/1/95	10.405%	
Clinton Capital Corporation	10/30	3,000,000.00	10/1/95	10.405%	
Enterprise Fin. Cap. Dev. Corp.	10/30	800,000.00	10/1/95	10.405%	
The First Connecticut SBIC	10/30	1,500,000.00	10/1/95	10.405%	
The Hanover Capital Corp.	10/30	525,000.00	10/1/95	10.405%	
Key Venture Capital Corp.	10/30	1,000,000.00	10/1/95	10.405%	
Mighty Capital Corporation	10/30	500,000.00	10/1/95	10.405%	
Northland Capital Corporation	10/30	200,000.00	10/1/95	10.405%	
Threshold Ventures, Inc.	10/30	500,000.00	10/1/95	10.405%	

Seven States Energy Corporation

+Note A-85-11	10/31	475,630,193.83	1/31/86	7.585%	
---------------	-------	----------------	---------	--------	--

+rollover

FEDERAL FINANCING BANK  
OCTOBER 1985 Commitments

BORROWER	GUARANTOR	AMOUNT	COMMITMENT EXPIRES	MATURITY
Bellflower, CA	HUD	\$ 415,000.00	10/1/86	10/1/86
Biloxi, MS	HUD	2,100,000.00	5/1/87	5/1/87
Caguas, PR	HUD	452,000.00	9/1/86	9/1/86
Sioux Falls, SD	HUD	1,275,000.00	2/15/86	2/15/86
Rochester, NY	HUD	15,000,000.00	9/1/88	9/1/88
Claremont, CA	HUD	218,400.00	8/1/86	8/1/86
Janesville, WI	HUD	400,000.00	2/1/86	2/1/86
Roanoke, VA	HUD	922,300.00	8/1/86	8/1/86
New Haven, CT	HUD	877,500.00	9/1/87	9/1/03

FEDERAL FINANCING BANK HOLDINGS  
(in millions)

<u>Program</u>	<u>October 31, 1985</u>	<u>September 30, 1985</u>	<u>Net Change</u> <u>10/1/85-10/31/85</u>
<u>On-Budget Agency Debt</u>			
Tennessee Valley Authority	\$ 14,474.0	\$ 14,381.0	\$ 93.0
Export-Import Bank	15,409.0	15,409.0	-0-
NCUA-Central Liquidity Facility	219.3	222.2	-2.9
<u>Off-Budget Agency Debt</u>			
U.S. Postal Service	1,690.0	1,690.0	-0-
U.S. Railway Association	73.8	73.8	-0-
<u>Agency Assets</u>			
Farmers Home Administration	63,969.0	64,169.0	-200.0
DHHS-Health Maintenance Org.	105.9	109.3	-3.3
DHHS-Medical Facilities	122.8	122.8	-0-
Overseas Private Investment Corp.	6.1	6.1	-0-
Rural Electrification Admin.-CBO	3,724.3	3,724.3	-0-
Small Business Administration	32.4	32.9	-0.6
<u>Government-Guaranteed Lending</u>			
DOD-Foreign Military Sales	18,118.4	18,088.5	29.9
DEB.-Student Loan Marketing Assn.	5,000.0	5,000.0	-0-
DHUD-Community Dev. Block Grant	299.6	289.4	10.3
DHUD-New Communities	33.5	33.5	-0-
DHUD-Public Housing Notes	2,146.2	2,146.2	-0-
General Services Administration	408.4	408.4	-0-
DOI-Guam Power Authority	35.1	35.1	-0-
DOI-Virgin Islands	28.2	28.2	-0-
NASA-Space Communications Co.	887.6	887.6	-0-
DON-Ship Lease Financing	1,271.7	1,313.1	-41.4
DON-Defense Production Act	6.2	5.8	0.4
Oregon Veteran's Housing	60.0	60.0	-0-
Rural Electrification Admin.	21,792.4	21,675.5	117.0
SBA-Small Business Investment Cos.	1,048.3	1,023.9	24.4
SBA-State/Local Development Cos.	616.6	595.7	20.9
TVA-Seven States Energy Corp.	1,655.1	1,651.4	3.7
DOT-Section 511	153.6	153.6	-0-
DOT-WMATA	177.0	177.0	-0-
<b>TOTALS*</b>	<b>\$ 153,564.6</b>	<b>\$ 153,513.3</b>	<b>\$ 51.3</b>

\*figures may not total due to rounding  
reflects adjustment for capitalized interest

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE  
December 31, 1985

CONTACT: Art Siddon  
566-5252

## TREASURY DEPARTMENT ASSESSES PENALTY AGAINST EQUITABLE BANK, BALTIMORE, MARYLAND, UNDER BANK SECRECY ACT

The Department of the Treasury announced today that Equitable Bank of Baltimore, Maryland, has agreed to a settlement that requires the bank to pay a civil penalty of \$121,750 for failure to report 487 currency transactions between 1980 and 1985 as required by the Bank Secrecy Act.

The decision was announced by Francis A. Keating II, newly appointed Assistant Secretary for Enforcement and Operations. Keating said that the penalty represented a complete settlement of Equitable's civil liability on violations disclosed to Treasury. Keating added that Equitable cooperated with Treasury in developing the scope of its liability after the compliance problems were discovered.

The Department of the Treasury has no evidence that Equitable knowingly engaged in money laundering in connection with these violations. Equitable Bank has instituted measures to ensure compliance with reporting requirements in the future.

Keating said, "I am firmly committed to continuing Treasury's rigorous enforcement of the Bank Secrecy Act in the interest of full compliance by all financial institutions. Every instance of non-compliance deprives the Government of potentially useful law enforcement information."

This year, more than 60 financial institutions have disclosed reporting violations to Treasury. Since June, penalties ranging from \$157,200 to \$2.25 million have been assessed against ten other banks. The civil liability of the other financial institutions is under review.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

DEC 31 '85 13:48 001 B PUBLIC DEBT P.02

FOR IMMEDIATE RELEASE

December 31, 1985

## TREASURY TO AUCTION \$11,250 MILLION OF 7-YEAR NOTES AND 20-YEAR 1-MONTH BONDS

The Department of the Treasury will auction \$6,500 million of 7-year notes and \$4,750 million of 20-year 1-month bonds to raise new cash. Additional amounts of the securities may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

The 20-year 1-month bond will become eligible for STRIPS (Separate Trading of Registered Interest and Principal of Securities) on August 18, 1986.

Details about the new securities are given in the attached highlights of the offering and in the official offering circulars.

000

Attachment

**HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC  
OF 7-YEAR NOTES AND 20-YEAR 1-MONTH BONDS**

December 31, 1985

<b>Amount Offered to the Public.....</b>	<b>\$6,500 million</b>	<b>\$4,750 million</b>
<b>Description of Security:</b>		
<b>Term and type of security.....</b>	<b>7-year notes</b>	<b>20-year 1-month bonds</b>
<b>Series and CUSIP designation.....</b>	<b>Series E-1993 (CUSIP No. 912827 TC 6)</b>	<b>Bonds of 2006 (CUSIP No. 912810 DU 9)</b>
<b>Issue date.....</b>	<b>January 15, 1986</b>	<b>January 15, 1986</b>
<b>Maturity date.....</b>	<b>January 15, 1993</b>	<b>February 15, 2006</b>
<b>Call date.....</b>	<b>No provision</b>	<b>No provision</b>
<b>Interest Rate.....</b>	<b>To be determined based on the average of accepted bids</b>	<b>To be determined based on the average of accepted bids</b>
<b>Investment yield.....</b>	<b>To be determined at auction</b>	<b>To be determined at auction</b>
<b>Premium or discount.....</b>	<b>To be determined after auction</b>	<b>To be determined after auction</b>
<b>Interest payment dates.....</b>	<b>July 15 and January 15 (first payment on July 15, 1986)</b>	<b>August 15 and February 15 (first payment on August 15, 1986)</b>
<b>Minimum denomination available...</b>	<b>\$1,000</b>	<b>\$1,000</b>
<b>Terms of Sale:</b>		
<b>Method of sale.....</b>	<b>Yield auction</b>	<b>Yield auction</b>
<b>Competitive tenders.....</b>	<b>Must be expressed as an annual yield, with two decimals, e.g., 7.10%</b>	<b>Must be expressed as an annual yield, with two decimals, e.g., 7.10%</b>
<b>Noncompetitive tenders.....</b>	<b>Accepted in full at the aver- age price up to \$1,000,000</b>	<b>Accepted in full at the aver- age price up to \$1,000,000</b>
<b>Accrued interest payable by investor.....</b>	<b>None</b>	<b>None</b>
<b>Payment through Treasury Tax and Loan (TT&amp;L) Note Accounts....</b>	<b>Acceptable for TT&amp;L Note Option Depositories</b>	<b>Acceptable for TT&amp;L Note Option Depositories</b>
<b>Payment by non-institutional investors.....</b>	<b>Full payment to be submitted with tender</b>	<b>Full payment to be submitted with tender</b>
<b>Deposit guarantee by designated institutions.....</b>	<b>Acceptable</b>	<b>Acceptable</b>
<b>Key Dates:</b>		
<b>Receipt of tenders.....</b>	<b>Tuesday, January 7, 1986, prior to 1:00 p.m., EST</b>	<b>Wednesday, January 8, 1986, prior to 1:00 p.m., EST</b>
<b>Settlement (final payment due from institutions):</b>		
<b>a) cash or Federal funds.....</b>	<b>Wednesday, January 15, 1986</b>	<b>Wednesday, January 15, 1986</b>
<b>b) readily-collectible check.....</b>	<b>Monday, January 13, 1986</b>	<b>Monday, January 13, 1986</b>

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

DEC 31 '85 12:34 001 8 PUBLIC DEBT P.01

FOR IMMEDIATE RELEASE

December 31, 1985

## TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately \$14,800 million, to be issued January 9, 1986. This offering will provide about \$500 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of \$14,293 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Monday, January 6, 1986. The two series offered are as follows:

91-day bills (to maturity date) for approximately \$7,400 million, representing an additional amount of bills dated October 10, 1985, and to mature April 10, 1986 (CUSIP No. 912794 KA 1), currently outstanding in the amount of \$7,035 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately \$7,400 million, representing an additional amount of bills dated July 11, 1985, and to mature July 10, 1986 (CUSIP No. 912794 KN 3), currently outstanding in the amount of \$8,514 million, the additional and original bills to be freely interchangeable.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Both series of bills will be issued entirely in book-entry form in a minimum amount of \$10,000 and in any higher \$5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

The bills will be issued for cash and in exchange for Treasury bills maturing January 9, 1986. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rates of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. Federal Reserve Banks currently hold \$1,100 million as agents for foreign and international monetary authorities, and \$3,314 million for their own account. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

Each tender must state the par amount of bills bid for, which must be a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than \$1,000,000.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

A noncompetitive bidder may not have entered into an agreement, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned prior to the designated closing time for receipt of tenders.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.



Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills. In addition, Treasury Tax and Loan Note Option Depositaries may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

REMARKS BY  
STEPHEN J. ENTIN  
DEPUTY ASSISTANT SECRETARY  
FOR ECONOMIC POLICY  
U.S. TREASURY DEPARTMENT

Comments on the Critics  
Session on -- Supply Side Economics: What Remains?

American Economics Association Annual Meeting  
New York City  
December 29, 1985

## Introduction

Supply side economics is a journalist's term for old-fashioned neo-classical analysis. It includes the study of the microeconomic impact of taxation on labor and capital markets. It is grounded in price theory and views the economy as being driven by relative price changes. None of the papers presented here today have focused on that area, which is why the varied descriptions of supply side economics and the mutually inconsistent charges against it presented today remind one so much of the three blind men and the elephant.

Let me first describe the position of modern neoclassical or supply side thinking in the recent history of economic thought. Next, I shall try to give a neoclassical explanation for the 1970s and 1980s as an alternative to the Phillip's curve/budget deficit/interest rate/payments deficit collage which has been thrown together again this afternoon.

## Framework for Analysis

In the 1960s, Milton Friedman and others questioned the role of fiscal policy in demand management. They viewed government spending as the true tax burden, whether financed by taxes or borrowing. A reduction of government spending would be stimulative because it returns resources to the more productive private sector.

Tax reduction is not a stimulus to demand; it does not directly increase spending power. In the absence of government spending reduction, tax reduction is offset dollar-for-dollar by higher government borrowing. A tax reduction per se is neither

inflationary nor stimulative. Only if additional government debt is purchased by the Federal Reserve, which thereby increases the money supply, is there any new money injected into the economy. But that is monetary policy, not fiscal policy. Fiscal policy is useless for managing demand by itself, and the monetarist views on the natural rate hypothesis and the evils of fine tuning the economy with monetary policy are too well known to need repeating. (See, for example, Milton Friedman, "The Role of Monetary Policy," American Economic Review, March 1968, 58, 1-17.)

Out of this challenge to fiscal policy came the neoclassical revival and the rational expectations school. Supply-siders share the rational expectations view that tax rates should be set to cover long-term outlays, and not be moved to cover short-term deficits. We believe that something less than 20 percent of GNP is an appropriate level, have set taxes accordingly, and are working on the spending side. The real supply side focus, however, is on the microeconomics of taxation and neoclassical analysis. This restores a role for the tax side of fiscal policy, that of developing an efficient, broad based, low marginal tax rate revenue system conducive to economic growth.

The real impact of tax policy is determined by the micro-economic structure of a tax change, not the dollar amount. Tax rates (as opposed to tax receipts) can affect the relative prices of various goods, and the relative rewards to various activities. We seek to raise the after-tax rewards to growth activities such as labor, savings, and investment relative to leisure and consumption.

Our analysis is straight out of classical price theory. By lowering the tax wedge, we hope to induce a greater supply of labor and capital inputs to enter the market, at lower gross costs to the firm but higher net reward to the suppliers of labor and capital. Hence the term supply side economics. A tax on butter and a subsidy on margarine raise the gross price of butter relative to margarine to the consumer, and reduce the net price of butter relative to margarine for the producer. This causes consumers and producers to shift somewhat, at the margin, away from consumption and production of butter toward consumption and production of margarine. Behavior changes even if the tax and subsidy exactly cancel in dollar amounts so that there is no change in the government budget totals.

In precisely the same way, the income tax affects two very important relative prices: the relative price of goods versus leisure, and the relative value of current consumption versus saving for future consumption. An individual may use his limited time either working for money with which to buy goods, or for leisure. Rising tax rates on money earnings mean a rising relative price, in terms of time, of goods compared to leisure. Consumption of goods, and the work effort put into acquiring them, falls, while the consumption of leisure increases.

Similarly, rising tax rates on interest or dividend income, or on the purchase or future profits of capital goods, reduce the reward to saving and investment. This raises the cost of shifting earnings or purchases to the future, increasing the relative price of future consumption versus current consumption. Saving, investment, and economic growth rates decline

(Cutting marginal tax rates should of course have the opposite effects, raising work effort, saving and investment. Some critics have suggested that the income effect of tax rate reduction might encourage more leisure, which is a normal good. However, it can be demonstrated that the income effects of a marginal tax rate reduction wash out across the population, and that only the substitution effects remain. Higher consumption of leisure must reduce real output and hence real income thereby negating the income effect and resolving the paradox.)

It is far more important to analyze what a proposed tax change does to the reward or rate of return to labor or saving and investment than to look at the dollar amount of the tax change. Our tax program works by changing incentives and relative prices, not by injecting purchasing power. In fact, our tax reductions have been largely offset, in dollar terms, by bracket creep due to inflation and by previously scheduled payroll tax increases for social insurance programs. Only the incentive effects from the design of the program remain.

### The 1970s

In the mid 1970s, the Fed tried to offset the OPEC shock by substituting money for oil, which only works if your boiler can burn money. As the Fed pumped up demand, resulting inflation reacted with unindexed personal tax brackets and unindexed depreciation allowances to raise marginal tax rates on individuals and business, adversely shifting aggregate supply, and producing stagflation.

Marginal tax rates on wages, interest, and dividends are part of the cost of hiring labor or raising capital. Between 1965 and 1981 inflation, bracket creep and payroll tax hikes sharply increased the pre-tax cost to the firm of giving a worker a one dollar after-tax wage increase. A typical worker now faces 40 percent to 44 percent tax rates on added income. This is the sum of social security and Federal marginal income tax rates, plus state and local taxes at the margin. It is up sharply from the late 1960s, when the marginal rates would have been roughly 26 percent to 30 percent.

The adverse disincentive effects of high marginal tax rates may appear as refusal to accept overtime work; as pressure for shorter hours, longer vacations and sheltered fringe benefits rather than straight pay increases; as a shift of savings out of

ordinary investments into less productive tax shelters or into consumption. Savings incentives and work incentives are both affected.

Inflation also lowered the return on plant and equipment by raising its after-tax cost. Corporate profits, after tax and adjusted to exclude inventory profits and to reflect depreciation at replacement cost over the economic lives of fixed capital, declined sharply in the late 1970s. By 1980, real profits were lower in absolute terms than in 1968. The decline in the rate of return on investment has been dramatic. (Chart 1)

Money was easy; taxes were rising and deficits were falling; real interest rates were sharply negative; yet the economy was not healthy. Rising inflation, falling returns to capital, declining productivity, falling real wages, and a falling dollar were all signs of economic malaise.

#### Implementing the Program

It was our hope to balance a disinflationary monetary policy with a pro-growth tax cut and spending restraint policy. We wanted to produce a smooth transition from stagflation to steady non-inflationary growth with rising employment. Unfortunately, we were unable to bring about the necessary coordination of policies.

The recession of 1981-1982 can be traced to high interest rates and two periods of very tight money in the summer of 1981 and the first half of 1982. On no account can it be blamed on a tax cut not yet enacted or implemented.

The Administration initially called for a very gradual reduction in the rate of growth of money from nearly 8 percent in the 1978 - 1980 period to 7 percent in 1981, 6 percent in 1982 and so on for four years. Instead, the Federal Reserve, erroneously assuming that even a non-monetized tax cut would raise inflation, and egged on by forecasts of high "core inflation" in the major econometric models, slammed on the brakes. It produced three-quarters of the four-year goal for monetary restraint in the first year, helping to trigger the 1981 recession. In addition, the erratic behavior of the money supply and money markets kept interest rates much higher than we would have liked.

We had hoped for a 30 percent tax rate reduction, 10 percent a year for three years, beginning January 1, 1981. Instead, just as the 1981 recession was beginning, Congress cut the first stage of the tax cut to 5 percent and delayed it until October 1, 1981. This produced only a 1-1/4 percent rate reduction in calendar year (tax year) 1981. Later installments of the tax cut were delayed until July 1 of 1982 and 1983.

This reduction and stretching out of the tax cut reduced its impact considerably. In fact, bracket creep and payroll tax increases in 1981 and 1982 resulted in a net tax increase in 1981 over 1980, and a tax cut in 1982 which still left most families paying more tax in real terms than in 1980. Not until 1983 was there a net tax cut from 1980 tax levels for most individuals.

The upshot, of course, was that the restrictive portions of the program came into place early and too forcefully, while the stimulative aspects of the program were delayed. The result was recession.

### The Economic Recovery

Our critics variously declared that there would not be an economic recovery because of excessive fiscal stimulus, that it would be weak, and that it would be unbalanced, favoring consumption over investment. They were wrong on all counts.

GNP rose strongly in the first two years of the recovery, which was stronger than the post-war average, and which displayed an earlier than usual increase in capital spending in spite of the level of interest rates. Fears that high interest rates would cause the recovery to be unbalanced, with little recovery in housing, business fixed investment, autos and other consumer durables, were groundless. Housing, autos and other durables have been strong. This has been an investment-led recovery with business fixed investment rising in the first 2 years of the expansion at nearly twice the average rate of the four previous long-lived Post-Korean War recoveries. Consumer spending was roughly average until picking up in the third year of the recovery. (Chart 2)

How did the critics misjudge the recovery so badly? In part they underestimated the impact of monetary easing after July 1982. They also completely misunderstood the nature of the real interest rate situation and underestimated the responsiveness of labor and capital markets to higher after-tax returns and lower costs.

Some of the rise in real interest rates since 1979 is a harmful result of unstable monetary policy. This depresses output. (See below.) However, some of the rise in real interest rates in the last few years is the result of economic strength, not a cause of economic weakness.

Indeed, the after tax marginal product of capital (the value to the investor of an additional machine or building) is the basis of the real interest rate. As the marginal product rose in the 1980s, many formerly unattractive investment projects became profitable. Firms willingly bid up the real interest rate to put the additional plant and equipment into place, sharing these higher

rewards with savers to attract funds. (Chart 4) Thus, a portion of the rise in real rates reflects the higher after tax rate of return on plant and equipment, and a renewed eagerness to invest which is necessary for real growth.

When interest rates are negative in real terms, as in the late 1970s, it is often a reflection of a negative real return to capital and a collapse in investment demand. Note the high positive real interest rates throughout much of U.S. history, including the positive real rates in the 1950s and the booming 1960s following the Kennedy tax cuts. Compare them to the negative real interest rates in the high tax, high inflation late 1970s. (Chart 3)

The level of investment is determined by the real after-tax rate of return on capital, not by the financial market real interest rate. (Chart 5) Property taxes and federal and state income taxes have more of an impact on investment than do market interest rates. It would be futile to raise taxes on capital to lower interest rates to promote investment. The direct effects of the tax increase would reduce investment by more than any plausible indirect effect on financial markets could raise investment. Indeed, computations of the cost of capital reveal that investment in equipment is about four times more sensitive to tax rates than to interest rates. (See the work by Robbins, Aldona E. and Gary A., and Roberts, Paul Craig, "Supply-Side Economics and the Cost of Capital," presented at the International Conference on "Adjusting to Shocks - A North-South Perspective" Milan, Italy, November 21, 1984.) The lower tax rates and lower inflation after 1981 raised the rate of return on all types of capital investment, and permitted an investment-led recovery in spite of high real interest rates.

### International Developments

The strengthening U.S. economy, falling U.S. inflation and improved real returns on plant and equipment have all served to attract capital and strengthen the dollar. The dramatic shift in the U.S. capital account between 1982 and 1985 has been due overwhelmingly to a drop in the U.S. capital outflow, not to a major increase in foreign-owned capital inflow. Our own funds have remained at home. (Table 1) This net capital inflow was followed of necessity by a current account deficit of equal magnitude. Just as the domestic expansion was investment led, the surge of imports has been about one-third investment goods, double the rate of the previous two expansions.

As the domestic investment boom and the expansion wind down, and if growth abroad is encouraged by tax rate reductions which improve foreign investment climates, then the net capital inflow and the current account deficit will subside.

Far from reducing U.S. job creation by two million, as some have claimed, the current account deficit has occurred at a time of record job creation, over 8 million in the first two years of recovery. Indeed, the expansion moved so quickly that the Federal Reserve threatened to choke it off prematurely, being fearful of rapid growth. The Fed would surely have acted if the economy had showed signs of creating 10 million jobs.

This whole natural adjustment process has been aggravated by monetary restraint. One can only wonder what would have happened had the Federal Reserve kept one eye on the exchange rate. In each recent period of very slow money growth, the trade weighted dollar has soared. In each period of ease, the dollar has slowed its climb or fallen. The dollar has moved inversely with M1, not directly with the deficit. (See below.) More domestic credit creation might well have allowed more U.S. lending abroad, a lower capital inflow, and less of a rise in the dollar and the trade deficit.

### The Critics React

The critics of the Administration economic program could not explain the recovery. Nonetheless, they were quick to seize on the one unusual feature of the expansion, the balance of payments, to unravel the program.

Step one was to label the whole deficit as real and structural, when in fact the high employment deficit adjusted for inflation is not that intractable, and the debt GNP ratio will soon be falling. Step two was to blame the deficit on tax reduction, when spending, recession and high interest rates were the true cause.

Step three was to proclaim a link between budget deficits and interest rates which is certainly not supported by the economic literature. Treasury's Office of Economic Policy conducted an exhaustive survey of the literature. We found that the empirical work in the profession finds at most a weak link between deficits and either real or nominal interest rates, and even the direction is unclear. In fact, some observers confirm Friedman's thesis that it is government spending, not deficits, which is the burden, and which shows a positive relationship to interest rates. (See, for example, Plosser, Charles I., Government Financing Decisions and Asset Returns," Journal of Monetary Economics, May 1982, 9, 325-352.)

Step four was to link interest rates to exchange rates and the current account deficit. The professional literature does not support such a link. (See Evans, Paul, "Is the Dollar High Because of Large Budget Deficits," mimeo, University of Houston, June 1985.) Treasury's Office of the Assistant Secretary for International Affairs and Office of Economic Policy both looked at the relationship, and have found the dollar to be capable of rising or



falling independently of changes in real or nominal interest rate differentials across countries.

Once these links were forged, the critics began to campaign to lower the budget deficit by any means. This was done in the name of promoting investment. What was the outcome of the deficit hysteria? First, the possibility of using the deficit to force a tax increase postponed any serious spending restraint by Congress. Second, tax increases were enacted on capital. In 1982 Congress passed TEFRA (Tax Equity and Fiscal Responsibility Act). TEFRA crippled investment in equipment by repealing an incredible 90 percent of the the reduction in the cost of capital enacted in ACRS, the Accelerated Cost Recovery System which was the business side of the 1981 tax cut. Congress passed DEFRA (Deficit Reduction Act) in 1984 and a minor tax amendment in 1985 which hit structures, repealing about 20 percent of the cost of capital reduction in the 1981 Act. With friends like these, capital formation does not need enemies.

#### Dealing With the Deficit

Much of the deficit can be traced to the recession, high interest rates, and Congress's failure to cut spending to match the slowdown in inflation. The deficit must be redressed by economic growth and spending reduction.

Federal outlays and receipts are both high by historical standards. We project long-term receipts averaging 19.4 percent of GNP between 1988 and 1990. This compares with an historical average of 18.8 percent from 1964 through 1979. In fact, except for the peak recession years of 1980 to 1982, peacetime receipts have seldom been higher. Receipts will be in line with, or even higher than historical levels. (Chart 6)

Meanwhile, spending, on- and off-budget, is far above its historical levels. It was 25.1 and 23.8 percent of GNP in 1983 and 1984, respectively. This compares to 20.5 percent from 1964 through 1979. We project on- and off-budget outlays averaging 23.3 percent of GNP between 1985 and 1987 under our proposals, falling to 20.5 percent between 1988 and 1990, the same as the historical average. Thus, if major budget changes are to be made, they should be in spending levels, not taxes.

Obviously, we have not slashed taxes. In fact, most of the 1981 personal tax cut was needed just to offset rising tax rates caused by bracket creep and by payroll tax increases enacted in 1977. In addition, there were the 1982 tax bill (TEFRA), the gasoline tax increase, the 1983 social security amendments and the 1984 tax bill (DEFRA). These have just matched the 1981 tax cuts in dollar amount.

For the average family, the tax cuts have barely offset on-going bracket creep and payroll tax hikes. Without the tax cuts, the total federal tax burden would have risen from less than 16 percent of income in 1978 to over 21 percent of income in 1988. Instead, the family's long run tax burden will level off at 16.8 percent of income, just above its 1980 level of 16.6 percent of income. Repeal of indexing would send the tax burden soaring as under prior law. (Chart 7) Marginal tax rates, including payroll taxes, were 27.1 percent for this family in 1980, fell only to 24.7 percent in 1984, and will be pushed back up to 25.7 percent in 1990 after the last of the pending payroll tax increases. We have prevented an increase in the marginal rates to 39.7 percent under old law, but we have hardly slashed tax rates for most taxpayers.

The budget deficit is reason for concern, but not hysteria. The deficit is manageable; it can and will be reduced without destroying the tax incentives needed for growth. There are several ways of putting the budget deficit into perspective. This is essential if any sense is to be made of the discussion of deficits and interest rates.

At a minimum we need to bring the deficit down to about 2 to 2-1/2 percent of GNP, about \$110 to \$140 billion by the end of the decade. This is a sustainable level. The debt burden would be falling relative to GNP, and debt service would be falling relative to the budget and tax receipts. This reduction in the burden of debt service cost would then help close the remaining budget gap over time. Either the Administration FY 86 Budget or the recent Congressional Budget Resolution would more than achieve this necessary minimum.

The effects of recession and inflation need to be eliminated to see the real deficit picture. (On this point, see the articles by Eisner and Pieper, Barro, and Dewald 1985 cited in the list of references attached to this paper.) Even before the latest Budget Resolution's proposed outlay reductions, the real total government deficit including state and local surpluses was projected at roughly one percent of GNP near term, and was projected to move even lower by 1990. (Chart 8 illustrates the process using July 1984 mid-session numbers. More recent estimates would show a healthy surplus by 1990.)

The high employment budget deficit corrects for the temporary effect of recession. The recession accounted for over half of the peak (as a share of GNP) FY-1983 deficit, and is still adding \$30 to \$40 billion to the FY-1985 deficit.

Inflation exaggerates the deficit by raising interest rates. Lenders demand an inflation premium to compensate for the decline in real value of the principal due to inflation. This shows up on budget as higher interest outlays on government debt, while the corresponding drop in the real value of the debt is not counted.

In 1985 the real value of the debt is rising by about \$50 to \$60 billion less than the current deficit implies.

Thus, the 1985 real high employment Federal deficit was about half the size of the apparent nominal deficit, and was about 40 percent covered by state and local surpluses.

The Federal debt is not high compared to GNP, and will soon level off as a share of GNP under the budget projections. At the end of WWII, the Federal debt held by the public and the Federal Reserve was 119 percent of GNP. It fell to about 25 percent of GNP in 1974 before rising in the recessions of 1974-75, 1980, and 1981-82. Under the budget projection, the debt will peak at about 41 percent of GNP, about the same level as in 1964. With the spending restraint promised in the Budget Resolution, the debt would be falling relative to GNP by 1987. (Chart 9)

### The Role of Monetary Policy

Although deficits and spending have grabbed much of the attention lately, one must not forget that inflation and monetary policy are the primary determinants of interest rates. Inflation premiums are built into interest rates. For years, interest rates and inflation have risen and fallen together. However, following the Federal Reserve's change in operating methods in late 1979, which was supposed to reduce money supply fluctuations and financial market uncertainty, interest rates shifted up relative to inflation. (Chart 10)

This jump in real interest rates began in early 1980, before the 1980 recession, before the election, before the tax cuts, before the 1981-82 recession, and before the sharp rise in the deficits which the recessions produced. Clearly, factors other than the deficit have been at work in raising interest rates.

In fact, monetary volatility increased after the Fed's 1979 policy change. A number of researchers point to the sharp increase in volatility of the money supply, bond prices and interest rates as a cause for the jump in the real interest rate. This "volatility" or "risk premium" is thought to be adding two to four percent to nominal and real interest rates. This is clearly of major concern to the financial markets. (Chart 11)

As for the real domestic economy, the sharp slowdown in money growth in the summer of 1981 (1.7 percent annual rate, April to October) and again in the first half of 1984 (1.3 percent annual rate, January to July) contributed to the 1981-1982 recession. (Chart 12) Another credit squeeze has led to the recent economic slowdown. The Federal Reserve reduced the rate of growth of money somewhat in the last half of 1983 and the first half of 1984 to prevent the economy from overheating.

Impatient for the economy to slow down, the Fed then cut off nearly all growth in M1 from June to October (0.5 percent annual rate). As a result, third quarter 1984 GNP grew at only a 2.1 percent annual rate, followed by 0.6 percent in the fourth quarter, and 3.7 percent and 1.1 percent in the first and second quarters of 1985. Over the four quarters, real growth averaged less than 2.0 percent at an annual rate, not fast enough to reduce unemployment. This excessive tightening was monetary overkill that could have led to recession, had monetary policy not eased in the fourth quarter of 1984.

Monetary policy has had a major influence on the dollar exchange rate and the balance of payments. Monetary instability has been partially responsible for the wide swings in the dollar on the foreign exchange markets since the end of the Bretton Woods system of fixed exchange rates, particularly since 1976. (Chart 40) From January 1977 to October 1978, the trade-weighted dollar lost value rapidly (10.9 percent annual rate) as accelerating money growth (8.0 percent annual rate) and a worsening current account balance led to an oversupply of dollars. As inflation accelerated, worldwide demand for the dollar fell, and the dollar continued weak through 1980.

From October 1980 to July 1982, sharply slower money growth (4.8 percent annual rate) and lower inflation led to a rapid climb in the dollar (19.9 percent annual rate), as confidence in its purchasing power was restored and people worldwide began trying to rebuild their dollar holdings in the face of tight supply. Faster money growth from July 1982 to June 1984 (10.4 percent annual rate) accommodated the worldwide dollar build-up and slowed the dollar's advance (6.6 percent annual rate). A renewed slowdown in money growth from June 1984 to December 1984 (4.1 percent annual rate) led to a renewed surge in the dollar (23.5 percent annual rate).

Faster money growth since December 1984 finally caught up with the dollar in late February 1985, and the dollar has since fallen back to the levels of early 1984. This represents a loss of over 40 percent of the rise in the dollar between 1980 and its February peak. It is to be hoped that a more stable monetary policy and a steadier dollar will benefit hard-pressed sectors of the U.S. economy.

#### Papers by Feldstein, Chimerine and Young

The papers by Feldstein and Chimerine and Young approach the 1980s with perspectives of the 1960s. A number of flaws appear in both.

Both make an error they would not allow a supply-sider to get away with. "Tax cuts alone can't solve the world's problems. Other factors are important too. Ceteris isn't

paribus!" they would say. How then, can the effect or lack of effect of a tax change be so confidently stated when other variables are not held constant? What is required here is a simulation of the economy with and without the tax rate reductions and their subsequent partial repeal. Alan Sinai has performed such an experiment and found that the economy would have been weaker, and saving and investment far weaker, in the absence of the tax changes. He used a model in which some effort was made to partially incorporate rates of return and relative price effects into the analysis. (Sinai, et.al., "Taxes, Saving and Investment: Some Empirical Evidence," National Tax Journal, September 1983, 36, 321-345.)

Both cite the failure of revenues to rise as the result of the tax cut as a failure of supply side economics, although (in a footnote) Feldstein admits the Administration never made the claim that revenues would rise as a result of the tax cuts. Indeed, no one would make such a claim for all tax rates or for the economy as a whole except in very special circumstances. It may well be that some top tax rates were so high as to be in the prohibitive range. Indeed, Kennedy's cuts in the top rate from 91 percent to 70 percent, the 1981 cut in the top rate from 70 percent to 50, and recent reductions in the top capital gains tax rate from about 49 percent to 28 percent in 1978 and then to 20 percent in 1981 all seem to be displaying something of this characteristic. (Support is provided by the U.S. Treasury Report on the 1978 capital gains tax reduction and a July 1984 study by James Gwartney and James Long for the Treasury Department's Office of Economic Policy.)

The important point in supply side analysis is that taxes affect behavior through changes in relative prices, and that the tax base and factor inputs do respond to incentives. Thus, there is some revenue reflow from a properly designed tax rate reduction, some additional gross private savings, and some need for spending cuts to cover the difference. The key is that spending and static revenue estimates need not be reduced in equal amounts, and that tax rate reduction is a far more productive way to promote real growth than government spending increases.

Both papers gloss over the impact of the overly tight monetary policy on the GNP, revenues, and the deficit. Somehow, Feldstein expects that a modest tax rate reduction should be able to overcome an overwhelming monetary contraction to prove the supply side case. Chimerine, on the other hand, asserts that supply side responses take years to develop. These are inconsistent criticisms, one demanding too much, one expecting too little.

Both papers rely on completely unsubstantiated links between budget deficits, interest rates and exchange rates in ways not supported by the literature. The Chimerine paper carries us back

to the time of old fashioned fiscal stimulus before the natural rate hypothesis and the neo-classical and rational expectations perspectives on the world.

The Feldstein paper has a number of interesting devices, including the setting up of a group of extreme supply siders to contrast with more traditional but perhaps less effective advocates of capital formation. Dr. Feldstein's claims concerning the exaggerated claims of extreme supply siders are greatly exaggerated.

Dr. Feldstein admits early in the paper that he is setting up a straw man by taking statements from a variety of supply siders, no one of whom may hold all the views he lists. It should be pointed out that admitting to setting up a straw man does not excuse one for doing so, nor does it turn the scarecrow into a creature of flesh and blood. Indeed, the scarecrow goes beyond caricature, in that many of its features are not traceable to any supply siders at all. Several of the views attributed to supply siders are not held by them, but were expressed by other members of the Administration. And several policies which were pushed by non-supply siders outside the Administration, and which were opposed by the Administration, are attributed to the Administration as a whole and supply siders in particular.

The ACRS incentives for investment enacted in ERTA in 1981 have been substantially repealed. Dr. Feldstein should not mock supply-siders who point out that the tax rate reductions for capital are not substantial under current law. For evidence, one need only turn to the 1983 Economic Report of the President, written by Dr. Feldstein and his CEA staff. On page 93 is a table (Table 3) which shows that roughly two-thirds of the incentive for the old 5 year ADR assets was taken back by TEFRA in 1982. Indeed, the drop in inflation from double-digit levels to under four percent has improved the value of depreciation write-offs for equipment by several times as much as the remaining ACRS provisions.

As mentioned above, this can be generalized to other assets. Incredibly, roughly 90 percent of the reduction in the cost of capital for equipment enacted in 1981 in ACRS was repealed by TEFRA in 1982. About 20 percent of the 1981 reduction in the service price of structures was repealed in TEFRA, DEFRA and the 1985 reconciliation bill. (Table 2) All the investment boom is running on are the lower inflation, the personal rate cuts, and the incentives for structures. That is not a condemnation of the power of incentives, it is a remarkable testimonial.

After saying that supply-siders care only for tax policy, Dr. Feldstein admits and then pooh-poohs supply side concerns over monetary policy, saying that the Fed, over five years, has

given us more money growth than we asked for in 1981. One might as well exonerate the lifeguard who watched a swimmer go under for the first, second and third time and then threw a dozen life preservers into the pool (to preserve appearances).

It takes a great deal less than five years for a sudden deceleration in money growth to trigger an economic downturn. Six months of 1.7 percent money growth, April to October, 1981, and seven months of 1.3 percent money growth, January to July, 1982, correspond nicely with the subsequent double dip 1981-1982 recession. This in turn accounted for half of the 1983 budget deficit, and, cumulatively, has left us with a swollen debt and an added \$30 to \$40 billion a year in higher interest outlays.

Feldstein gives much of the credit for the economic recovery in late 1982 to the Fed, which eased monetary policy in July 1982. He does not credit the personal rate reductions which by 1983 finally grew to be larger than ongoing bracket creep and payroll tax increases and which probably deserve some credit, although on the capital side 1982 saw passage of a major tax increase. However, after crediting the Fed with all of the good news, Feldstein does not credit the Fed with the 1981-1982 recession, or at least he excuses them for it as a necessary evil, and he does not seem to connect the late 1984-early 1985 growth recession with the 0.5 percent money growth rate between June and October 1984. These periods of slowdown are credited instead to the lack of performance of supply-side tax rate reductions which were significantly scaled back. Anyone extending credit must be selective, but this is too much!

Too much has been made by Feldstein and Chimerine of the failure of the personal saving rate to increase as predicted. First, gross private saving, the sum of business and personal saving, has risen by nearly a full percent of GNP since 1980, or by a third the amount of the tax reductions. In 1984, it stood at 18.4 percent of GNP, the second highest level since 1947. At worst, supply siders misjudged the components within the total. Second, there is more to life (as our critics constantly remind us) than tax rates. Wealth is a well-established independent variable in the consumption function and, consequently, in the savings function. In 1983, the stock market gained over \$600 billion, with additional billions added in the bond market, possibly a reflection of higher real returns to capital and a stronger economy. Personal consumption rose, and saving fell, by about one percent of disposable income as a result. In 1985, another market surge, and a strong year for consumer durables, notably autos, depressed savings as we measure it, while it remained strong under broader definitions which include changes in wealth and a component of spending on durables.

Too much is also made of the failures of the 1981 Administration forecast. It was issued prior to the shift in monetary

policy which triggered the 1981-1982 recession, and prior to the disappointing scale-back of the 1981 tax cut. It came during a quarter of nearly 8 percent real growth following the 1980 recession, and its projection of 4 to 5 percent real growth was in line with at least two other periods of strong growth in the postwar period, 1948-1953 (4.8%) and 1961-1968 (4.6%). (Table 4) It even allowed for a significant slowdown in 1981, but not for a credit crunch and two years of recession. And of course, most other forecasters also missed the downturn.

The chief difficulty with the 1981 forecast when issued was a too-pessimistic inflation outlook fed by an assumption of a sharply rising velocity of money. Neither the supply-siders nor the monetarists at Treasury wished to show such a sharp rise in velocity or in nominal GNP. This was forced on us by devotees of the misguided concept of core inflation supported by OMB, which needed higher nominal GNP to show a balanced budget in 1984. This rosy nominal outlook was taken to be a threat of continued inflation. It merely reinforced the Fed's misguided concerns about the inflationary impact of non-monetized tax cuts, and encouraged them to over do the monetary tightening.

The most startling forecast error by the Administration was in the 1983 forecast, directed by the CEA under Dr. Feldstein, which missed one of the fastest growth years in the postwar period. That forecast was put together after all the tax and monetary policy changes affecting 1983 were already in place, including the tax increase of 1982, which Dr. Feldstein thought was good for growth, and the monetary easing which began that summer, which really was good for growth.

Supply side/neo-classical/microeconomic impacts of fiscal policy on GNP are important issues which deserve serious research. These are real academic questions, not just political hype. I hope that the casual empiricism and quasi-political debate presented here this afternoon does not dissuade anyone from pursuing more vigorous research into these areas.



Table 1

U.S. Capital Account, 1980 to 1985  
(\$, billions)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	First Half <u>1985*</u> (annual rate)
Capital inflow to U.S.	58	83	94	84	97	79
<u>Less</u> Capital outflow from U.S.	86	111	119	55	20	6
<u>Equals</u> Net identified capital inflow	-28	-28	-25	29	77	73
<u>Plus</u> Statistical discrepancy and other (inflows)	26	22	33	12	25	52
<u>Equals</u> Net capital inflow to U.S.	-2	-6	8	41	102	124
.....						
Current account balance	2	6	-8	-41	-102	-124

\* preliminary

+ implies inflow, - an outflow

Note: components may not add to totals due to rounding.

Source: Commerce Department, Survey of Current Business, June and September 1985.

**Table 2**  
**Cost of Capital Comparisons \***

(Individual Arbitrage — "Winfrey" Depreciation Schedules)

ASSET AGGREGATES	ADR	ADR/ ERTA	"1981" Law	Current Law	"1986" Law	Weights
Equipment	4.50%	4.03%	3.06%	3.90%	2.34%	28.46%
Furniture and Fabricated Metal Products	4.89%	4.42%	3.67%	4.38%	2.97%	2.58%
Machinery and Equipment	4.56%	4.09%	3.15%	3.96%	2.43%	17.95%
Office and Computing Machinery	2.52%	1.99%	1.44%	2.90%	0.28%	1.58%
Other	4.76%	4.29%	3.32%	4.06%	2.64%	16.37%
Transportation Equipment	4.19%	3.69%	2.24%	3.34%	1.42%	4.63%
Autos and Trucks	3.08%	2.56%	1.24%	2.81%	0.12%	2.03%
Other	5.06%	4.58%	3.02%	3.75%	2.43%	2.60%
Other Equipment	4.31%	3.88%	3.28%	4.00%	2.62%	3.30%
Structures	7.94%	7.42%	6.02%	6.29%	5.91%	53.92%
Buildings	7.71%	7.21%	6.33%	6.62%	6.33%	38.46%
Other Structures	8.50%	7.96%	5.25%	5.47%	4.86%	15.46%
Mining	8.87%	8.30%	4.75%	4.75%	4.75%	3.48%
Transportation and Public Utilities	8.56%	8.05%	5.68%	5.97%	5.11%	9.90%
Other	7.59%	6.97%	4.04%	4.25%	3.87%	2.09%
Nonresidential Fixed Investment	6.75%	6.25%	5.00%	5.46%	4.68%	82.38%
Inventories	7.23%	6.59%	6.59%	6.59%	6.59%	17.62%
Total	6.84%	6.31%	5.28%	5.66%	5.01%	100.00%
Other Variables						
Interest Rate	11.43%	10.40%	10.40%	10.40%	10.40%	
Overall Real Rate of Return	4.00%	4.00%	4.00%	4.00%	4.00%	
Corporate Real Rate of Return	4.00%	4.00%	4.00%	4.00%	4.00%	
Noncorporate Real Rate of Return	4.00%	4.00%	4.00%	4.00%	4.00%	
Nontaxable Real Rate of Return	4.00%	4.00%	4.00%	4.00%	4.00%	
Corporate Real Discount Rate	3.84%	3.50%	3.50%	3.50%	3.50%	
Noncorporate Real Discount Rate	3.93%	3.95%	3.95%	3.95%	3.95%	
Nontaxable Real Discount Rate	4.00%	4.00%	4.00%	4.00%	4.00%	
Investment Tax Credit	Yes	Yes	Yes	Yes	Yes	
Indexed Depreciation	No	No	No	No	No	

\* "ADR/ERTA" is computed assuming full phase-in of the 23 percent personal marginal tax rate reductions, showing the difference from ADR due to the personal rate reductions. Numbers are shown for corporate and non-corporate capital combined. ERTA is also assumed for the subsequent three columns. ACRS shortened asset lives, expanded the ITC, and permitted 150 percent declining balance write-offs in 1981-1984 ("1981" Law), 175 percent declining balance in 1985, and 200 percent declining balance in 1986 and beyond ("1986" Law). "Current Law" includes TEFRA, and DEFRA and subsequent changes. TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) largely affected equipment. It offset part of the ITC with a 5 percent basis adjustment and froze ACRS at 150 percent declining balance. DEFRA (Deficit Reduction Act of 1984) largely affected structures, lengthening the write-off period from 15 to 18 years. This was subsequently raised to 19 years in a 1985 reconciliation bill.

Table 3

## TAX POLICY AND INVESTMENT

In 1981 the Congress instituted the accelerated cost recovery system as part of the Economic Recovery Tax Act. This tax legislation permitted businesses to depreciate most purchases of equipment according to an accelerated 5-year schedule. It also permitted businesses to depreciate structures over 15 years using a 175 percent declining balance schedule. The Economic Recovery Tax Act preserved the investment tax credit on equipment and called for further accelerations in depreciation schedules in 1985 and 1986.

The 1982 Tax Equity and Fiscal Responsibility Act altered the provisions of the Economic Recovery Tax Act by instituting a half-basis adjustment for investment tax credits in calculating depreciation and by eliminating the planned further accelerations in depreciation schedules. Table 4-4 shows the present value of the depreciation deductions and investment tax credits received by a corporation under the old accelerated depreciation system, Economic Recovery Tax Act (ERTA) rules and Tax Equity and Fiscal Responsibility Act (TEFRA) rules. The present value is calculated for a variety of hypothetical combinations of discount and inflation rates.

TABLE 4-4.—*Investment incentives<sup>1</sup> under different tax laws*  
(5-year property)

Real interest rate	Tax law	Inflation rate (percent)			
		4	6	8	10
1 percent.....	Pre-ERTA <sup>2</sup> .....	.495	.473	.454	.436
	ERTA.....	.516	.500	.486	.472
	TEFRA.....	.495	.480	.466	.454
4 percent.....	Pre-ERTA <sup>2</sup> .....	.462	.444	.427	.412
	ERTA.....	.492	.478	.465	.452
	TEFRA.....	.472	.459	.446	.435
7 percent.....	Pre-ERTA <sup>2</sup> .....	.435	.419	.404	.390
	ERTA.....	.471	.458	.446	.434
	TEFRA.....	.452	.440	.428	.418
10 percent.....	Pre-ERTA <sup>2</sup> .....	.412	.397	.384	.372
	ERTA.....	.452	.440	.429	.418
	TEFRA.....	.435	.423	.412	.402

<sup>1</sup> Present value of depreciation deductions and investment tax credits per dollar of investment.

<sup>2</sup> Assumes depreciation over 9.5 years using double-declining balance switching to sum of years digits.

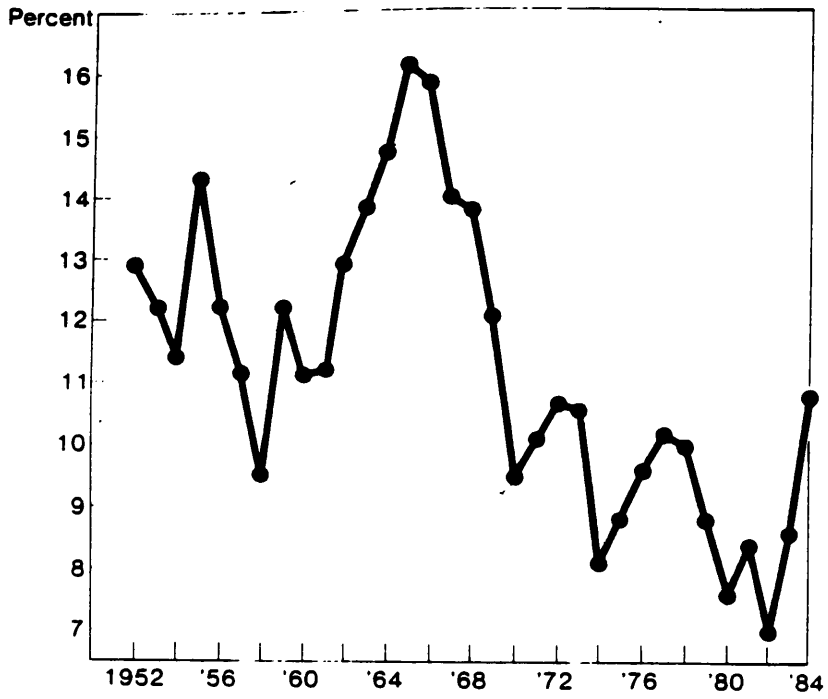
Source: Council of Economic Advisors.

Table 4

Extended Postwar Periods of Growth  
Exceeding 4% and 5%

<u>Period</u>	<u>Real GNP Percent change, annual rate</u>	<u>Duration</u>
1948-1953	4.8%	6 yrs.
1950-1953	6.1%	4 yrs.
1961-1968	4.6%	8 yrs.
1962-1966	5.4%	5 yrs.

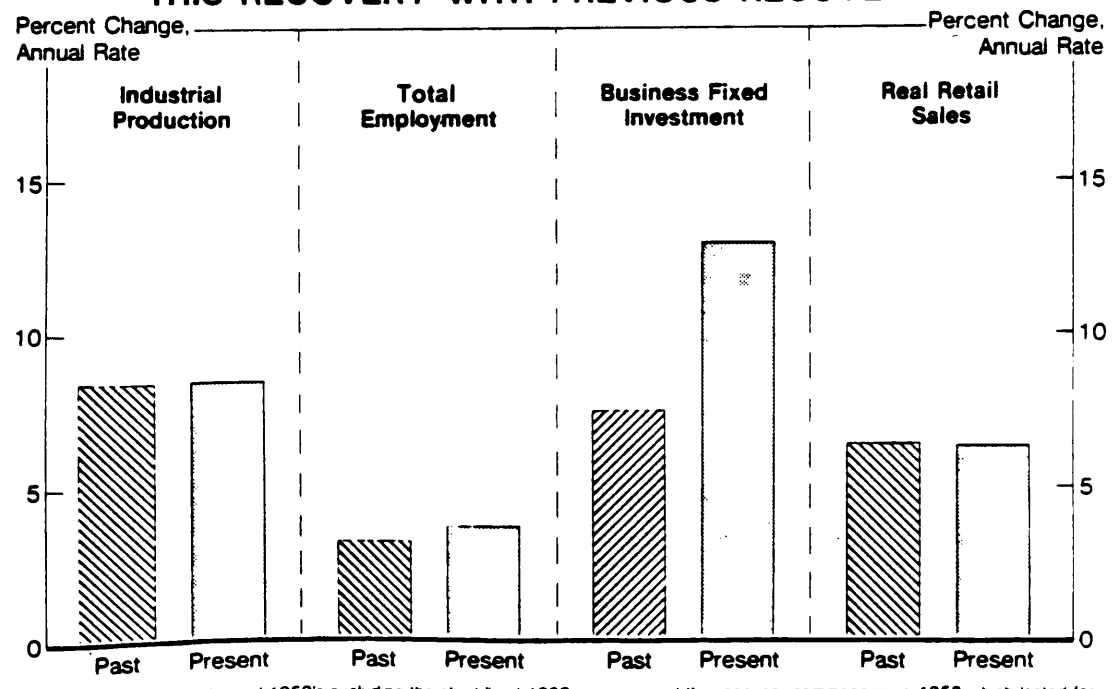
### LONG-TERM SLIDE IN BUSINESS PROFITABILITY\*



\* Nonfinancial corporations. Pretax profits (with inventory valuation and capital consumption adjustments) plus net interest as a share of the net stock of reproducible fixed capital at replacement cost.

September 6, 1984, A30

### COMPARISON OF THIS RECOVERY WITH PREVIOUS RECOVERIES\*

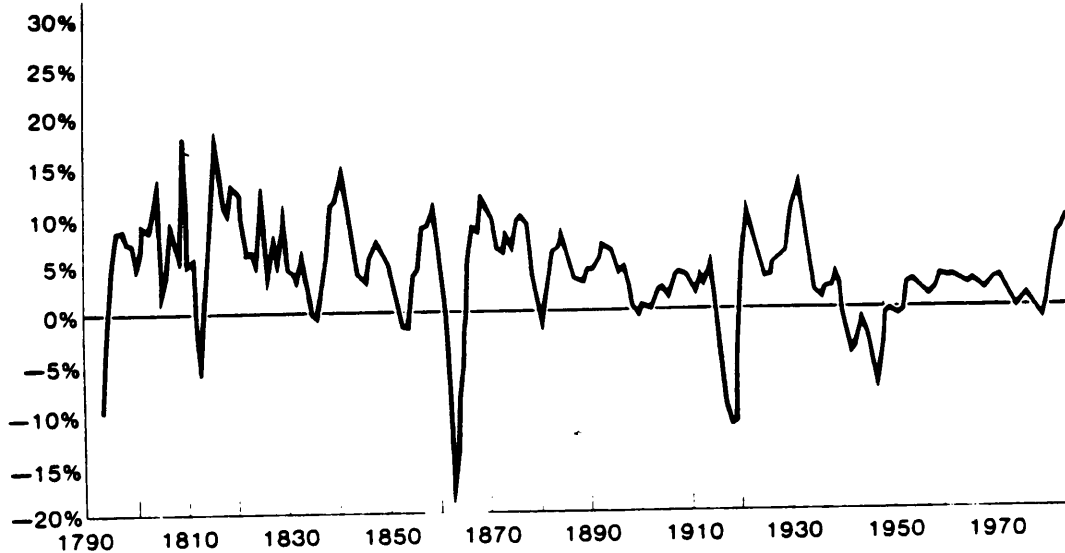


\* Recoveries since the mid-1950's excluding the short-lived 1980 recovery and the recovery commencing in 1958 which lasted for twenty-four months. First thirty-two months for industrial production & real retail sales; first thirty-three months for payroll employment. First ten quarters for business fixed investment.

September 11, 1984, A44

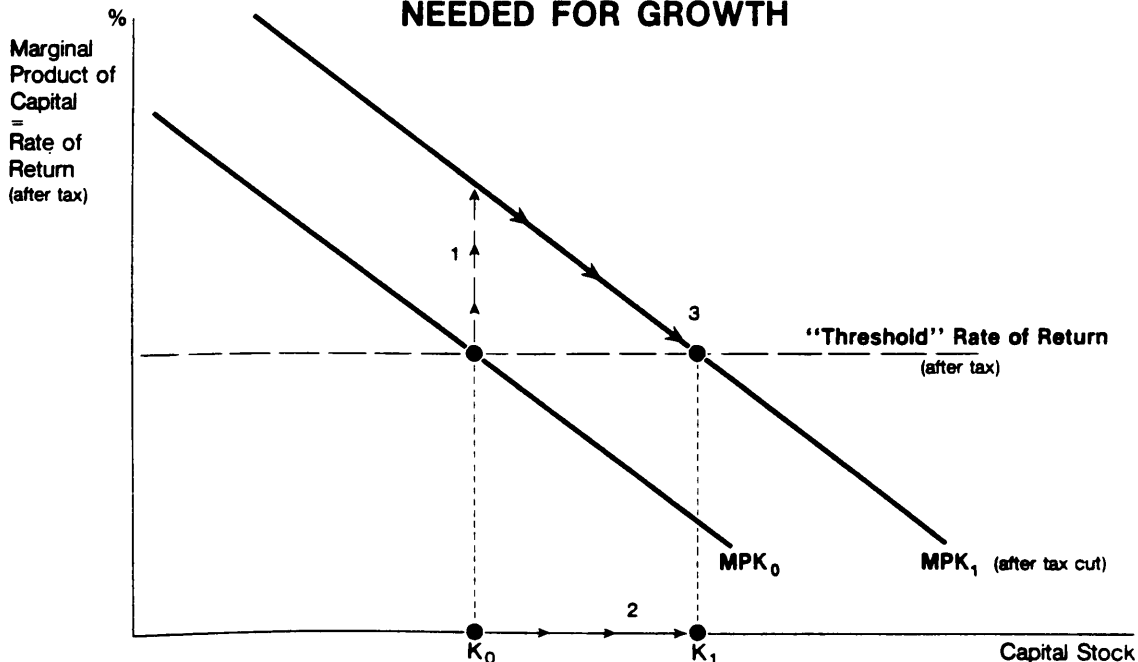
# REAL INTEREST RATES, 1790-1984

Long-Term Interest Rates  
Adjusted for Inflation/Deflation\*



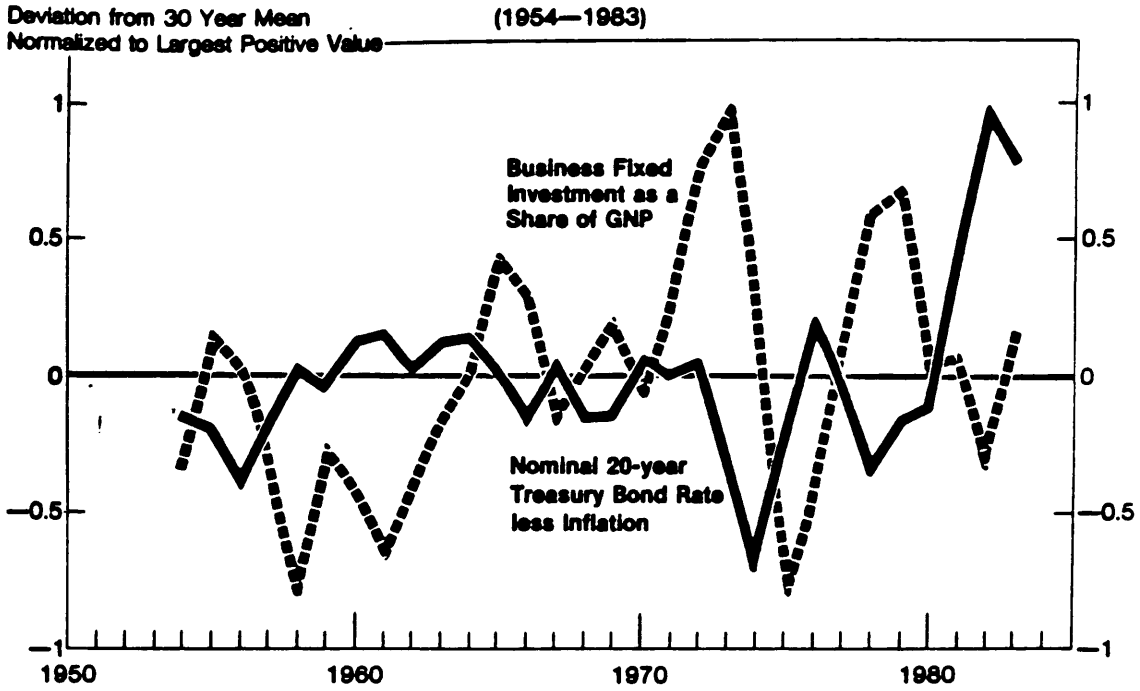
\* Inflation/deflation level employed based on three-year centered moving average of annual changes in Consumer Price Index  
Source: Financial Analysts Journal, January-February, 1981 (updated).

## HIGHER REAL RETURNS TO CAPITAL, HIGHER REAL INTEREST RATES FOR SAVERS, NEEDED FOR GROWTH



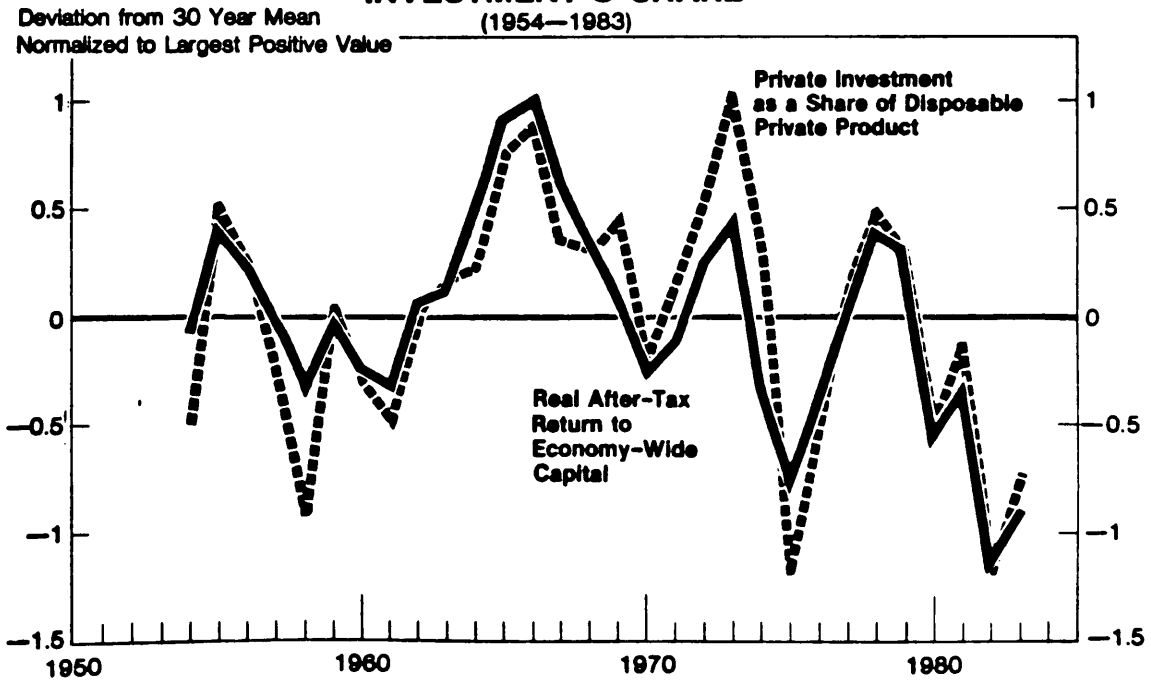
- 1 — Tax cut raises profitability of capital investment.  
More capital projects exceed threshold rate of return.  
Firms bid up interest rates to attract more savings.
- 2 — Saving and investment rise; capital stock grows.
- 3 — Rate of return falls back to normal; expansion ends.

### REAL INTEREST RATE AND THE RATE OF INVESTMENT



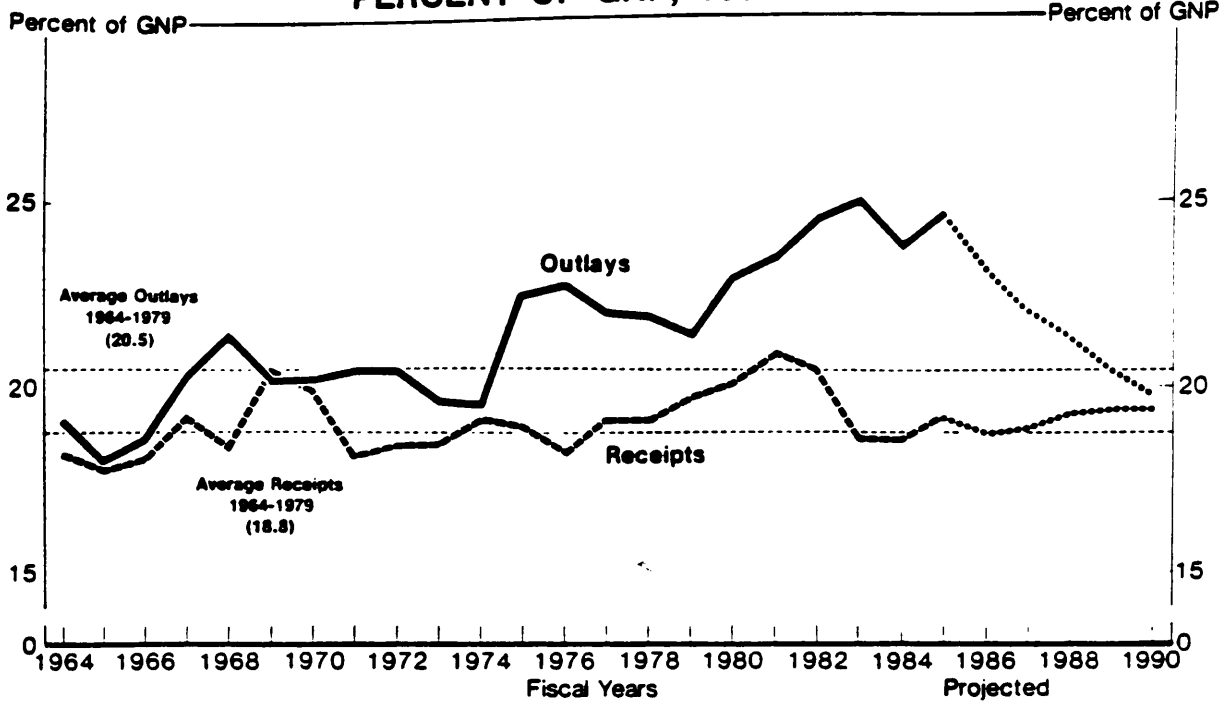
February 6, 1985 A412

### REAL AFTER-TAX RETURN TO CAPITAL AND INVESTMENT'S SHARE



February 6, 1985 A413

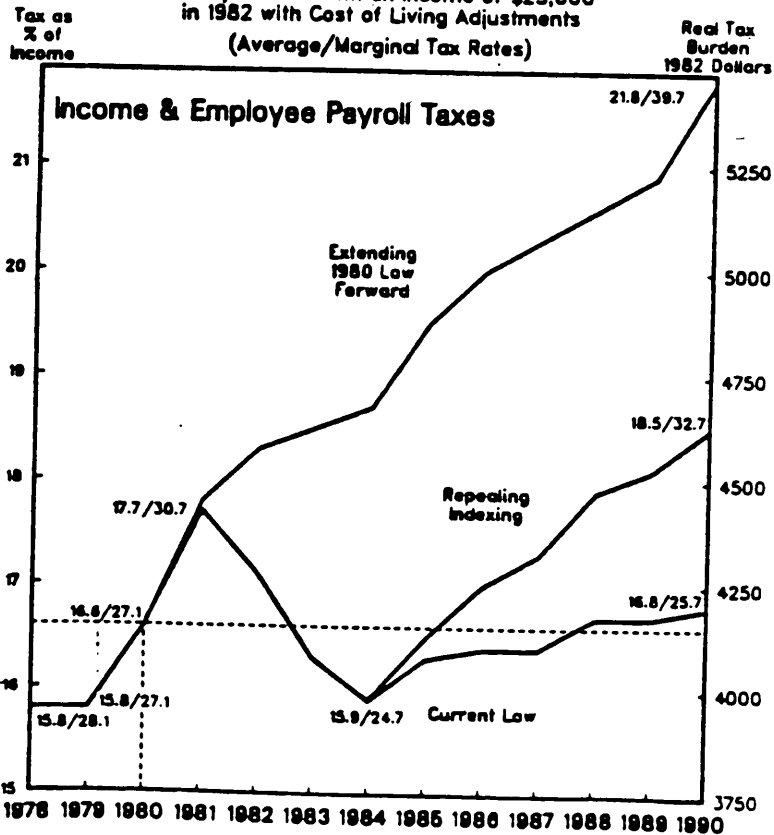
# OUTLAYS AND RECEIPTS AS PERCENT OF GNP, 1964-1990



Note: Outlays include off-budget federal entities.  
Mid-Session Review of the 1986 Budget.

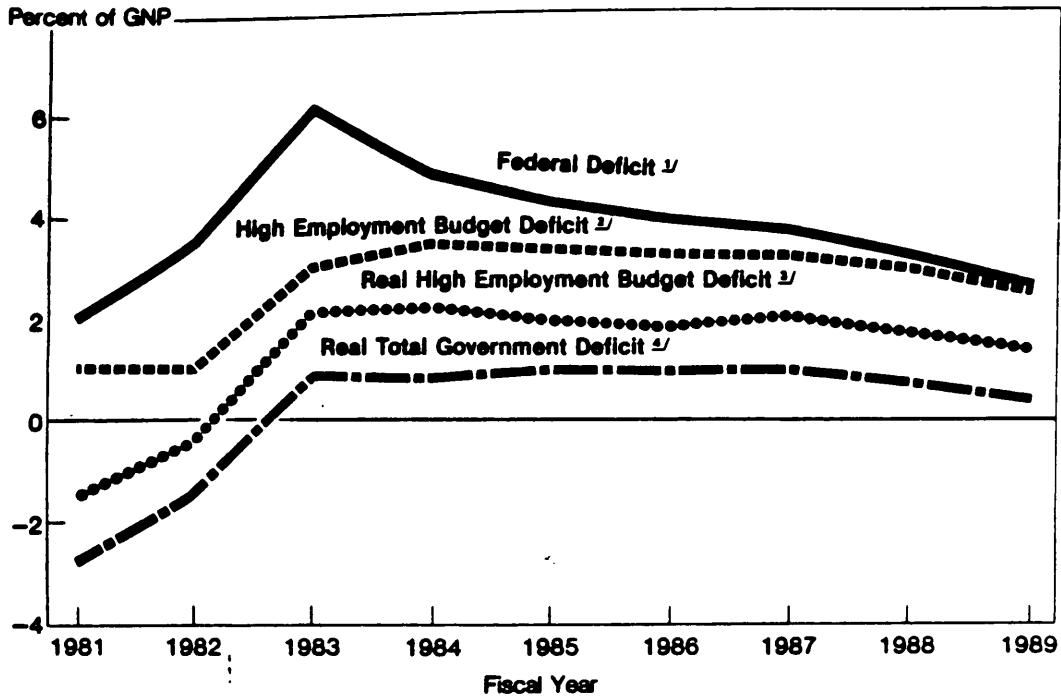
## Real Tax Burden

Family of Four with an Income of \$25,000 in 1982 with Cost of Living Adjustments (Average/Marginal Tax Rates)





## MEASURES OF THE DEFICIT AS SHARES OF GNP

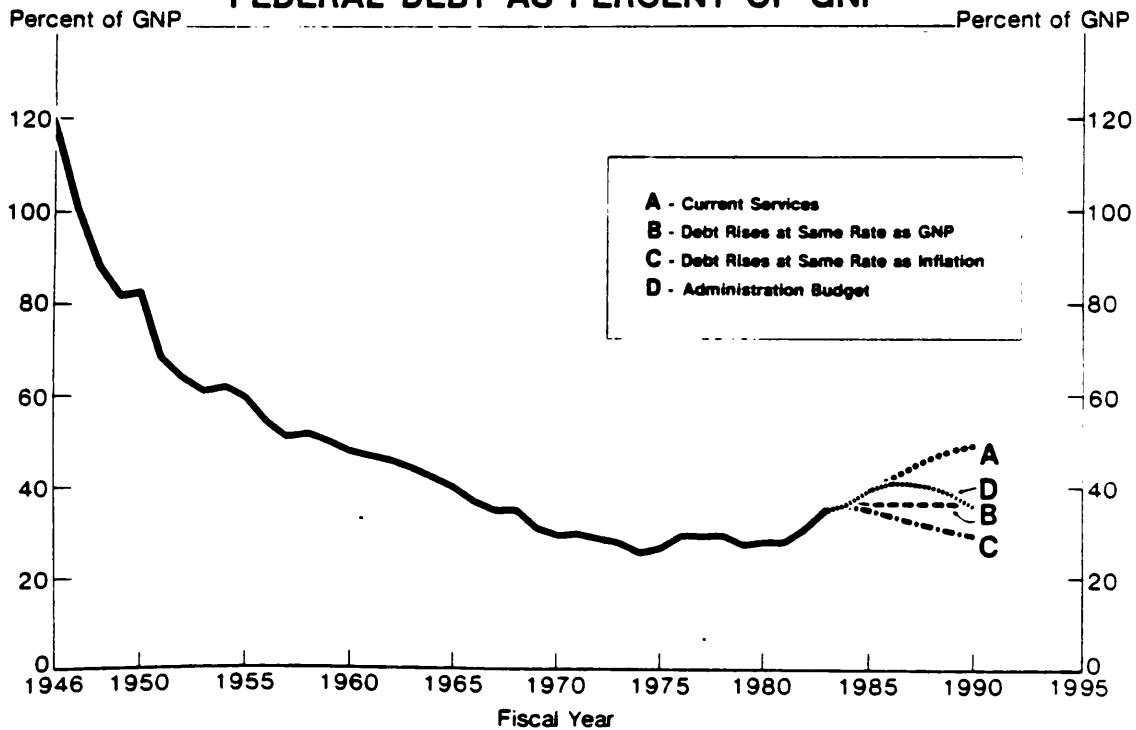


- ∩ Federal on-budget deficit. Projections are from Mid-Session Review.
- ∩ High Employment Budget Deficit — Federal deficit adjusted for recession and unemployment in excess of six percent.
- ∩ Real High Employment Budget Deficit — High Employment Budget Federal deficit adjusted for impact of inflation on value of debt outstanding held by the public and the Federal Reserve.
- ∩ Real Total Government Deficit — Real-High Employment Budget Federal deficit less projected State and local surpluses.

August 22, 1984-ASU

8

## FEDERAL DEBT AS PERCENT OF GNP

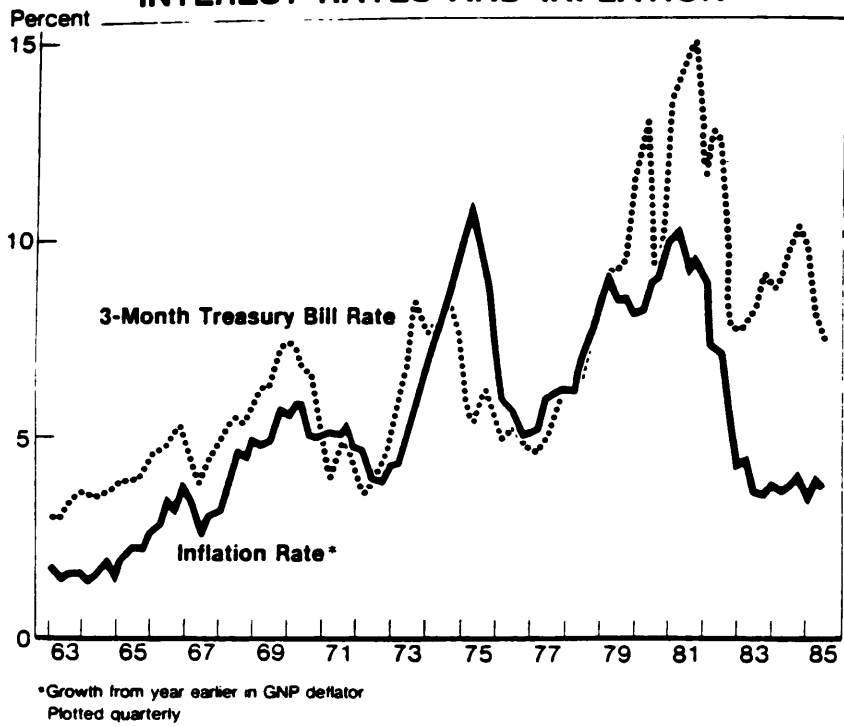


Note: Debt held by the public, including the Federal Reserve  
Mid-Session Review of the 1986 Budget

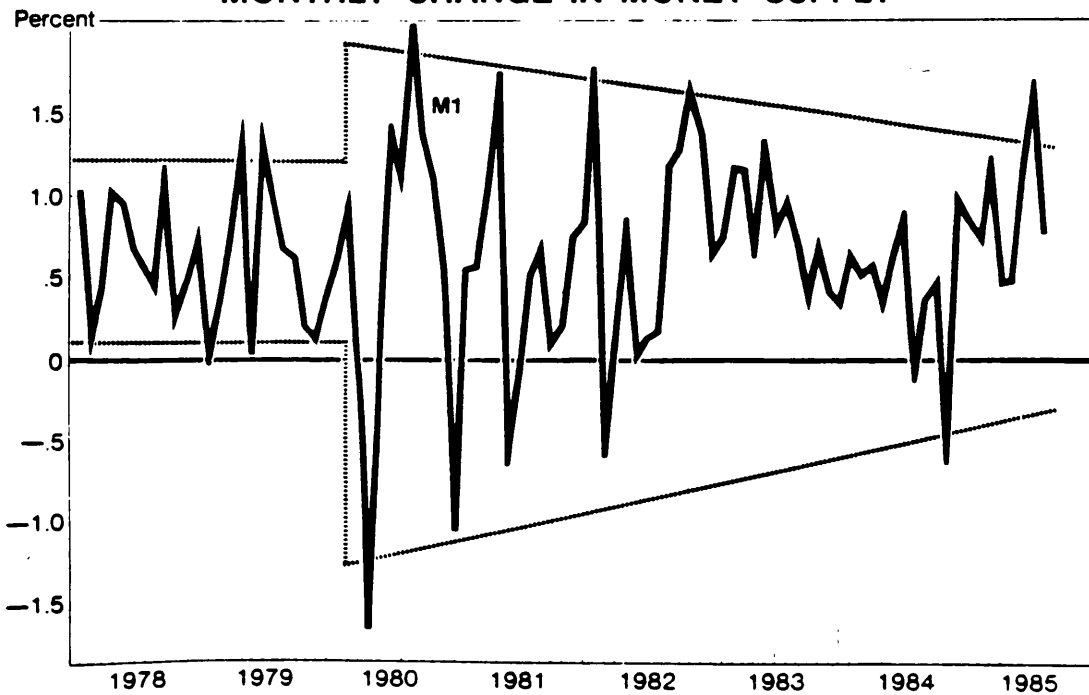
August 22, 1984-ASU

9

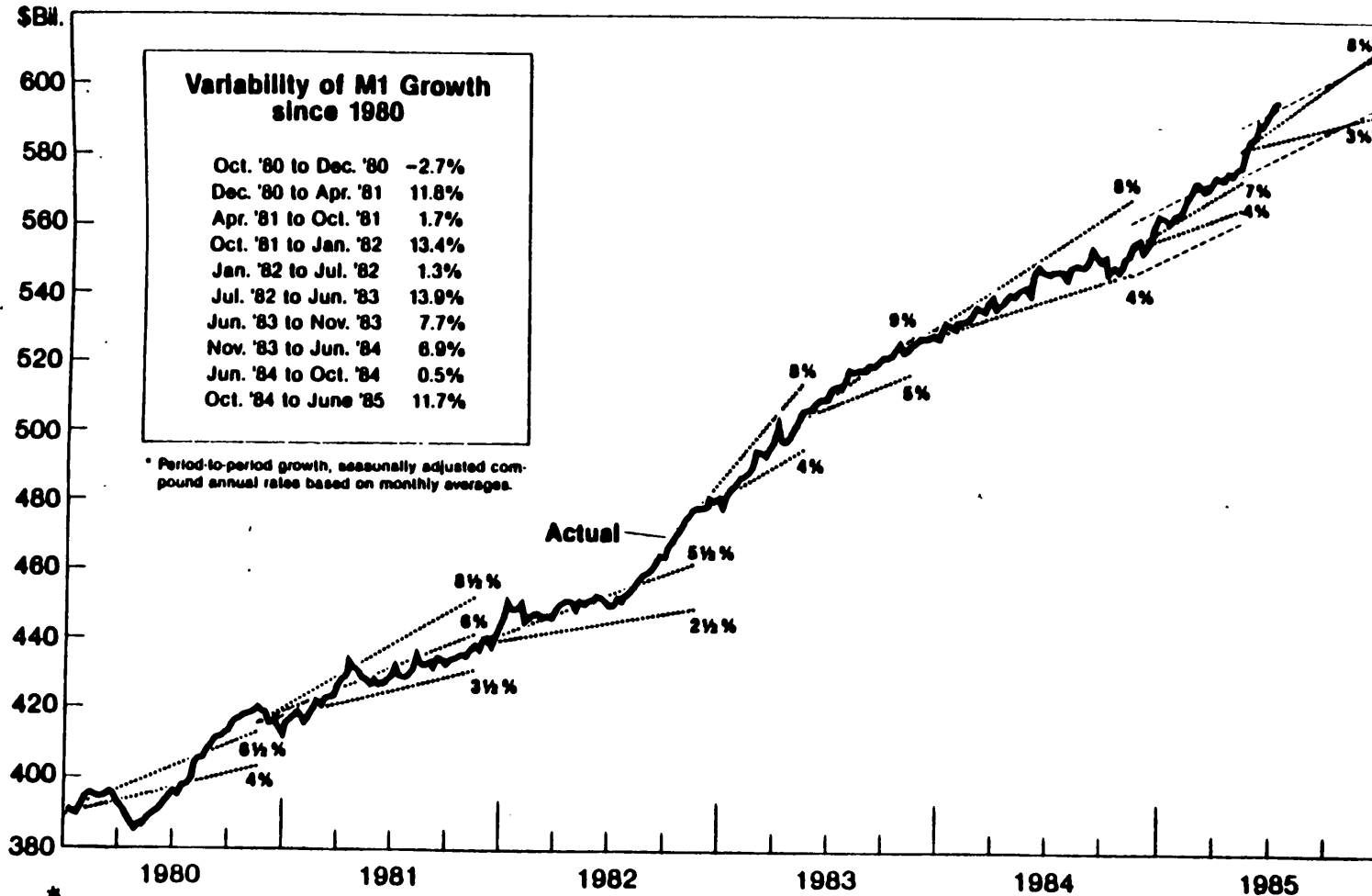
# INTEREST RATES AND INFLATION



# MONTHLY CHANGE IN MONEY SUPPLY



## M<sub>1</sub> VERSUS TARGET RANGE\*



\* M1 data: weekly averages, seasonally adjusted.

Fed target ranges: seasonally adjusted simple annual rates based on quarterly averages.

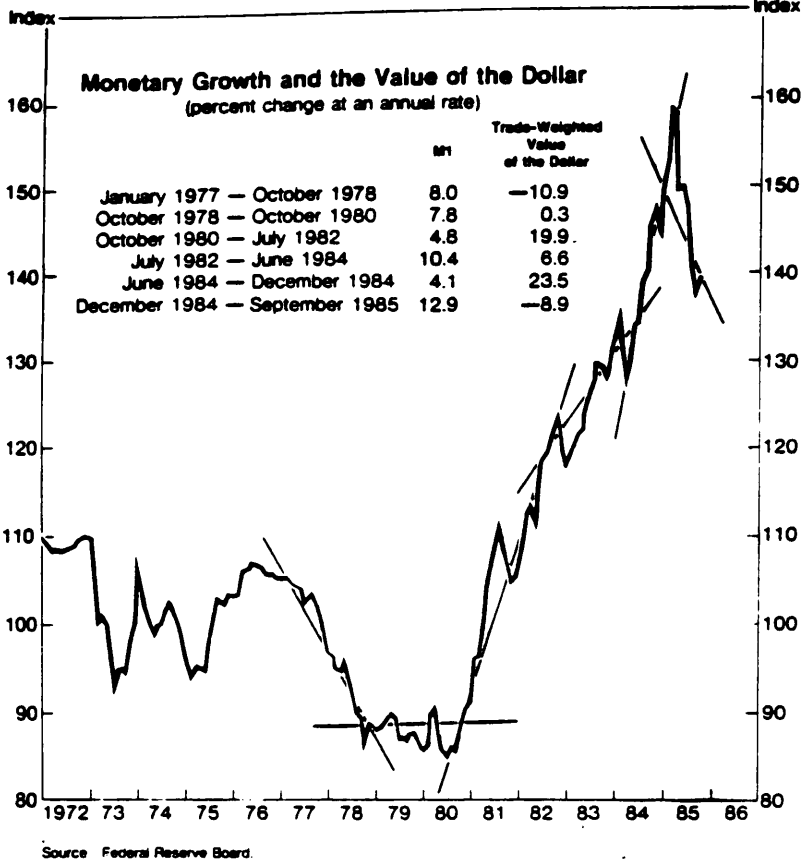
In 1981 both M1-B and M1-B "shift adjusted" ranges are shown: the M1-B range is 6-8%; the M1-B "shift adjusted" range is 3-6%. Monetary bands are also shown for 1985.

July 10 1985 A402

# TRADE-WEIGHTED VALUE OF THE DOLLAR

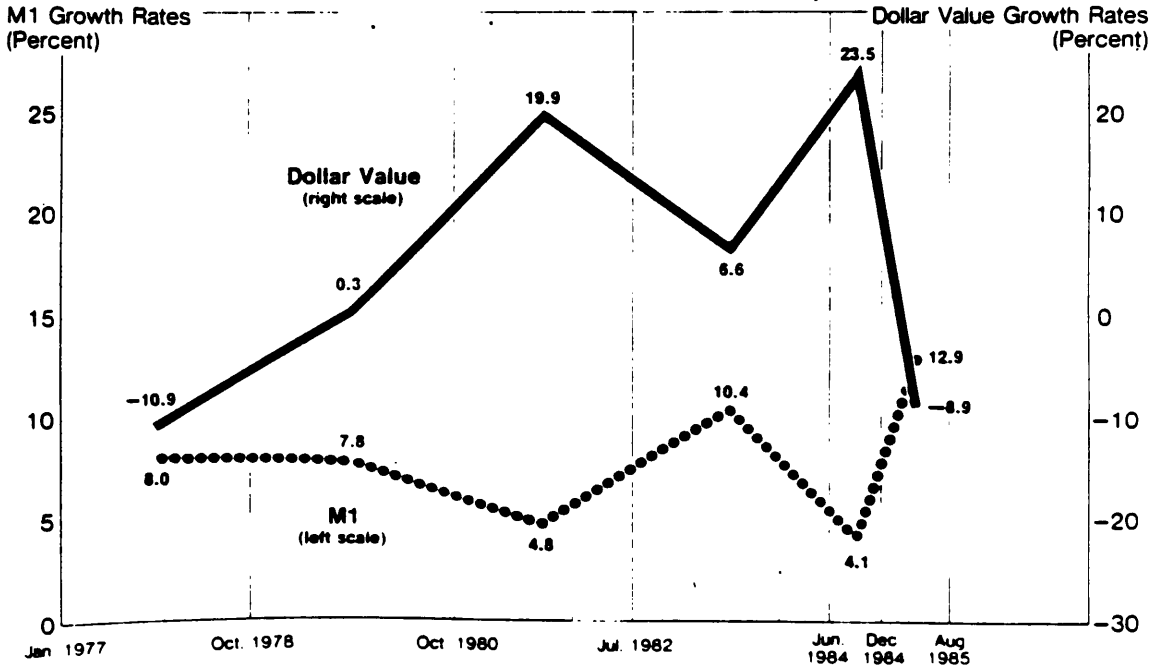
March 1973 = 100

13a



# MONEY GROWTH RATES AND GROWTH RATES FOR THE VALUE OF THE DOLLAR OVER SELECTED PERIODS, 1977—MID-1985

13b



Source: Federal Reserve Board. Dollar value is based on Federal Reserve index of weighted-average exchange value of U.S. dollar against currencies of other G-10 countries plus Switzerland. March 1973=100

## Additional Comments on the Deficit-Interest Rate Issue

Professor William Dewald, of Ohio State University, Editor of The Journal of Money, Credit and Banking, writing in the January 1983 issue of the Economic Review of the Federal Reserve Bank of Atlanta, says:

"These data show no strong historical association between real interest rates and real deficits ... Other factors offer a more promising explanation of high real interest rates than budget deficits, which have been found to account for very little of recent high real interest rates."

Professor Charles Webster, of Washington University, in the May 1983 issue of the Economic Review of the Federal Reserve Bank of Kansas City, says:

"Theoretical and empirical evidence does not resolve whether budget deficits influence interest rates, or how. Empirical evidence does not necessarily contradict the view that budget deficits have no effect on interest rates, real or nominal. To the extent that such an impact occurs, the magnitude appears small."

Professor Victor Canto and Donald Rapp of USC, in the August 1982 issue of the Economic Review of the Federal Reserve Bank of Atlanta, say:

"This evidence calls into question the popularly held view that higher deficits necessarily have led to higher interest rates and have "crowded out" private investment. The results imply that, over the whole 1929-1980 period ... budget deficits have not been a consistently accurate predictor of interest rates."

Professor John Makin, of the University of Washington, writing in the August 1983 issue of Review of Economics and Statistics attempts to detect an impact upon the real rate arising from an exogenous rise in fiscal deficits and concludes that the possible significance of "crowding out" can only be judged as "mixed to weak"; and that over the entire sample period the positive relationship found was only marginally significant.

Professor Paul Evans, previously of Stanford University now at the University of Houston, has written that:

"There are three periods [the Civil War, WWI and WWII] during which the federal deficit has exceeded ten percent of national income. In none of these periods did interest rates rise appreciably."

A number of studies point to government spending, not deficits per se, as the source of crowding out and higher interest rates. Professor Milton Friedman has expounded that view for years. If he is correct, we must cut spending, not raise taxes.

That view is expressed also by Professor Charles Plosser, of the University of Rochester, writing in the May 1982 issue of the Journal of Monetary Economics:

"The results ... do not support the proposition that ... increases in government debt drive ... yields up. [But] there is consistent evidence ... that innovations [i.e., increases] in government purchases are associated with higher interest rates."

Professor Dudley Johnson, California State University, Fullerton, summarizes the issue:

"There is neither empirical nor theoretical justification for the alleged evils of deficits. The mythology of federal deficits has become so entrenched ... that a simple but fundamental fact is ignored because the public's attention is distracted: the true burden of government consists of the resources it uses -- as represented by its expenditures. The expanding size ... of our federal budget is our central problem."

## REFERENCES

- Barro, Robert J., "The Deficit is just about Right," Manuscript (University of Rochester, Rochester, N.Y.), January 1985.
- Canto, Victor A. and Rapp, Donald, "The 'Crowding Out' Controversy: Arguments and Evidence," Economic Review, Federal Reserve Bank of Atlanta, 33-37.
- Dewald, William G., "Federal Deficits and Real Interest Rates: Theory and Evidence," Economic Review, Federal Reserve Bank of Atlanta, January 1983, 20-29.
- Dewald, William G., "CBO and OMB Projections, Adjusted for Inflation, Show Federal Budget Deficit under Control," Economic Review, Federal Reserve Bank of Richmond, November/December 1985, 71/6, 15-22.
- Eisner, Robert and Pieper, Paul J., "A New View of the Federal Debt and Budget Deficits," American Economic Review, March 1984, 74, 11-29.
- Eisner, Robert and Pieper, Paul J., "How to Make Sense of the Deficit," Public Interest, Winter 1985, 78, 101-118.
- Evans, Paul, "Do Large Deficits Produce High Interest Rates?" American Economic Review, March 1985, 75, 68-87.
- Evans, Paul, "Is the Dollar High Because of Large Budget Deficits?" Manuscript (Department of Economics, University of Houston, Houston, Texas), June 1985.
- Friedman, Milton, "The Role of Monetary Policy," American Economic Review, March 1968, 58, 1-17.
- Forbes Magazine, "Of course, I'm sure, I read it in...," November 19, 1984, pp.39-40.
- Gwartney, James and Long, James, "Income Tax Avoidance and an Empirical Estimation of the Laffer Curve," U.S. Treasury Research Series, U.S. Treasury Department, Office of the Assistant Secretary for Economic Policy, July 1984.
- Horrigan, Brian, "Sizing Up the Deficit: An Efficient Tax Perspective," Manuscript (Federal Reserve Bank of Phila., Phila, Pa.), April 1984.
- Johnson, Dudley W., "Federal Budget Deficits Do Not Matter," Manuscript (Department of Economics, California State University, Fullerton and on leave from University of Washington), June 1983.

- Makin, John H., "Real Interest, Money Surprises, Anticipated Inflation and Fiscal Deficits," Review of Economics and Statistics, Vol LXV, No 3, August 1983, 374-384.
- McCaleb, Thomas S., "Federal Budget and Fiscal Policy in the 1980's," Manuscript (Florida State University, Tallahassee, Florida), November 1983.
- Plosser, Charles I., "Government Financing Decisions and Asset Returns," Journal of Monetary Economics, May 1982, 9, 325-352.
- Robbins, Aldona E., Robbins, Gary A., and Roberts, Paul Craig, "Supply-Side Economics and the Cost of Capital," Presented at the International Conference on "Adjusting to Shocks - A North-South Perspective" Milan, Italy, November 21, 1984.
- Sinai, Allen, Lin, Andrew and Robins, Russel "Taxes, Saving, and Investment: Some Empirical Evidence," National Tax Journal, September 1983, 36, 321-345.
- Tatom, John A., "Two Views of the Effects of Government Budget Deficits in the 1980's," Review, Federal Reserve Bank of St. Louis, 5-16.
- U.S. Department of the Treasury, Office of the Assistant Secretary for Economic Policy, The Effect of Deficits on Prices of Financial Assets: Theory and Evidence, Washington: USGPO, March 1984.
- U.S. Department of the Treasury, Office of the Secretary, Office of Tax Analysis, Report to the Congress on the Capital Gains Tax Reduction of 1978, September 1985, 1-199.
- Webster, Jr., Charles E., "The Effects of Deficits on Interest Rates," Economic Review, Federal Reserve Bank of Kansas City, May 1983, 19-28.



# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

January 6, 1986

## RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for \$7,403 million of 13-week bills and for \$7,427 million of 26-week bills, both to be issued on January 9, 1986, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills			:	26-week bills		
	maturing April 10, 1986			:	maturing July 10, 1986		
	Discount Rate	Investment Rate 1/	Price	:	Discount Rate	Investment Rate 1/	Price
Low	7.02%	7.24%	98.226	:	7.09% <sup>a/</sup>	7.45%	96.416
High	7.06%	7.29%	98.215	:	7.11%	7.48%	96.406
Average	7.05%	7.28%	98.218	:	7.11%	7.48%	96.406

<sup>a/</sup> Excepting 1 tender of \$5,000,000.

Tenders at the high discount rate for the 13-week bills were allotted 42%.  
Tenders at the high discount rate for the 26-week bills were allotted 66%.

## TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>	:	<u>Received</u>	<u>Accepted</u>
Boston	\$ 66,020	\$ 62,020	:	\$ 42,570	\$ 38,570
New York	22,660,385	6,165,565	:	18,022,010	6,422,690
Philadelphia	41,565	41,565	:	17,615	17,615
Cleveland	51,535	50,820	:	82,180	32,180
Richmond	96,110	46,110	:	61,505	47,255
Atlanta	65,980	53,180	:	105,230	58,320
Chicago	1,559,425	141,620	:	1,481,215	103,425
St. Louis	87,725	47,725	:	76,750	36,750
Minneapolis	117,020	38,020	:	68,860	18,860
Kansas City	68,675	68,675	:	59,865	58,865
Dallas	47,535	37,535	:	31,205	24,505
San Francisco	1,490,815	280,655	:	1,279,400	179,520
Treasury	369,440	369,440	:	388,680	388,680
<b>TOTALS</b>	<b>\$26,722,230</b>	<b>\$7,402,930</b>	:	<b>\$21,717,085</b>	<b>\$7,427,235</b>
<u>Type</u>			:		
Competitive	\$23,524,250	\$4,204,950	:	\$18,495,465	\$4,205,615
Noncompetitive	1,299,445	1,299,445	:	976,520	976,520
Subtotal, Public	\$24,823,695	\$5,504,395	:	\$19,471,985	\$5,182,135
Federal Reserve	1,718,535	1,718,535	:	1,650,000	1,650,000
Foreign Official Institutions	180,000	180,000	:	595,100	595,100
<b>TOTALS</b>	<b>\$26,722,230</b>	<b>\$7,402,930</b>	:	<b>\$21,717,085</b>	<b>\$7,427,235</b>

<sup>1/</sup> Equivalent coupon-issue yield.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

January 7, 1986

## RESULTS OF AUCTION OF 7-YEAR NOTES

The Department of the Treasury has accepted \$6,505 million of \$14,112 million of tenders received from the public for the 7-year notes, Series E-1993, auctioned today. The notes will be issued January 15, 1986, and mature January 15, 1993.

The interest rate on the notes will be 8-3/4%. The range of accepted competitive bids, and the corresponding prices at the 8-3/4% interest rate are as follows:

	<u>Yield</u>	<u>Price</u>
Low	8.82%	99.640
High	8.87%	99.384
Average	8.85%	99.486

Tenders at the high yield were allotted 39%.

## TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>
Boston	\$ 8,266	\$ 8,266
New York	12,064,972	5,590,452
Philadelphia	5,550	5,550
Cleveland	265,449	265,449
Richmond	32,513	24,463
Atlanta	33,969	33,969
Chicago	923,440	300,380
St. Louis	72,146	54,536
Minneapolis	11,550	11,550
Kansas City	39,621	39,121
Dallas	8,116	8,116
San Francisco	646,033	162,153
Treasury	645	645
Totals	<u>\$14,112,270</u>	<u>\$6,504,650</u>

The \$6,505 million of accepted tenders includes \$434 million of noncompetitive tenders and \$6,071 million of competitive tenders from the public.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M.

January 7, 1986

## TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately \$14,800 million, to be issued January 16, 1986. This offering will provide about \$475 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of \$14,315 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Monday, January 13, 1986. The two series offered are as follows:

91-day bills (to maturity date) for approximately \$7,400 million, representing an additional amount of bills dated April 18, 1985, and to mature April 17, 1986 (CUSIP No. 912794 KB 9), currently outstanding in the amount of \$15,400 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately \$7,400 million, to be dated January 16, 1986, and to mature July 17, 1986 (CUSIP No. 912794 KW 3).

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Both series of bills will be issued entirely in book-entry form in a minimum amount of \$10,000 and in any higher \$5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

The bills will be issued for cash and in exchange for Treasury bills maturing January 16, 1986. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rates of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. Federal Reserve Banks currently hold \$881 million as agents for foreign and international monetary authorities, and \$3,217 million for their own account. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

Each tender must state the par amount of bills bid for, which must be a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than \$1,000,000.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

A noncompetitive bidder may not have entered into an agreement, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned prior to the designated closing time for receipt of tenders.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills. In addition, Treasury Tax and Loan Note Option Depositories may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.



# TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE  
January 8, 1986

CONTACT: CHARLES POWERS  
(202) 566-2041

## U.S.-INCOME TAX TREATIES WITH ITALY AND CYPRUS RATIFIED

The Treasury Department today announced that instruments of ratification have been exchanged bringing into force new U.S. income tax treaties with Italy and Cyprus. In addition, the new income tax treaty with Barbados is expected to be ratified in the early months of 1986. Two other income tax treaties, with the People's Republic of China and Denmark, have been reported out favorably by the Senate Committee on Foreign Relations but have not yet been considered by the full Senate.

On December 30, 1985, the instruments of ratification were exchanged of The Convention Between the Government of the United States of America and the Government of the Republic of Italy for the Avoidance of Double Taxation with Respect to Taxes on Income and the Prevention of Fraud or Fiscal Evasion, Together with a Supplementary Protocol and Exchange of Notes, Signed at Rome on April 17, 1984 ("the Italian treaty"). The Italian treaty entered into force at that time. Its provisions with respect to taxes withheld at the source will take effect for amounts paid or credited on or after February 1, 1986. Its provisions with respect to other taxes take effect for taxable periods beginning on or after January 1, 1985.

On December 31, 1985, the instruments of ratification were exchanged of The Convention Between the Government of the United States of America and the Government of the Republic of Cyprus for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes in Income, Together with a Related Exchange of Notes, Signed at Nicosia on March 19, 1984 ("the Cyprus treaty"). The Cyprus treaty entered into force at that time. Its provisions will take effect for income of calendar or taxable years beginning (or in the case of taxes payable at the source, payments made) on or after January 1, 1986.

o o o

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE  
January 8, 1986

CONTACT: ROBERT LEVINE  
Phone: (202) 566-2041

## TREASURY IMPLEMENTS ECONOMIC SANCTIONS AGAINST LIBYA

The Department of the Treasury announced the issuance today of the Libyan Sanctions Regulations implementing the President's Executive Order of January 7, 1986, which imposes economic sanctions against Libya.

The Executive Order and the Regulations establish a comprehensive ban on imports into the United States of Libyan goods or services and on exports to Libya from the United States of goods, technology, and services. U.S. persons are barred from extending credits or loans to the Government of Libya. Also prohibited are the provision of U.S. transportation services such as shipping or air service to Libya and the provision of such services to the United States by Libyan carriers. U.S. persons may not perform contracts supporting projects in Libya, or purchase Libyan goods to be exported to non-U.S. destinations. Transactions relating to travel to and activities within Libya by U.S. citizens and resident aliens, are prohibited, in order to reduce the number of Americans in Libya.

Limited exceptions will be available for certain transactions. These include exports to Libya of donated articles intended to relieve human suffering, such as food, clothing, medicine and medical supplies, and imports and exports of publications and gift parcels. Also authorized are travel transactions incident to departure from Libya, and travel by journalists.

The regulations apply to all U.S. citizens and permanent resident aliens, entities organized under U.S. law, and persons within the United States. They do not apply to foreign subsidiaries of U.S. firms.

The prohibition on credits or loans to the Government of Libya and on travel transactions are effective as of 8:06 p.m. Eastern Standard Time, January 7, 1986. The other sanctions will become effective at 12:01 a.m. Eastern Standard Time, February 1, 1986.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

January 8, 1986

## RESULTS OF AUCTION OF 20-YEAR 1-MONTH BONDS

The Department of the Treasury has accepted \$4,750 million of \$12,932 million of tenders received from the public for the 20-year 1-month bonds auctioned today. The bonds will be issued January 15, 1986, and mature February 15, 2006.

The interest rate on the bonds will be 9-3/8%. <sup>1/</sup> The range of accepted competitive bids, and the corresponding prices at the 9-3/8% interest rate are as follows:

	<u>Yield</u>	<u>Price</u>
Low	9.35%	100.190
High	9.45%	99.295
Average	9.43%	99.473

Tenders at the high yield were allotted 94%.

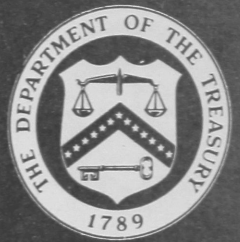
## TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>
Boston	\$ 1,539	\$ 1,539
New York	11,756,728	4,499,179
Philadelphia	1,085	1,085
Cleveland	30,416	9,816
Richmond	11,761	5,761
Atlanta	12,635	7,635
Chicago	527,193	115,953
St. Louis	77,728	61,728
Minneapolis	7,337	7,337
Kansas City	9,880	9,880
Dallas	285	285
San Francisco	495,038	29,838
Treasury	282	282
Totals	<u>\$12,931,907</u>	<u>\$4,750,318</u>

The \$4,750 million of accepted tenders includes \$299 million of noncompetitive tenders and \$4,451 million of competitive tenders from the public.

<sup>1/</sup> When the bonds become eligible for STRIPS on August 18, 1986, the minimum par amount required will be \$64,000. Larger amounts must be in multiples of that amount.





FOR IMMEDIATE RELEASE  
January 8, 1986

CONTACT: Bob Childers  
(202) 634-5248

REVENUE SHARING FUNDS DISTRIBUTED  
TO LOCAL GOVERNMENTS

The Department of the Treasury's Office of Revenue Sharing (ORS) distributed nearly \$1.04 billion in Federal Revenue Sharing funds today to 32,800 local governments across the country. This is the first quarterly payment for fiscal year 1986. The Local Government Fiscal Assistance Amendments of 1983 provide for quarterly Revenue Sharing payments to local governments through September 30, 1986.

On November 25, 1985, President Reagan signed legislation (Public Law 99-160) which authorized Revenue Sharing funding for the current fiscal year at \$4,185,000,000--a reduction of approximately 8.35 percent from the previous year's appropriation. The legislation requires that the entire reduction be withheld from the final payment.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-204'

January 10, 1986

## Feller Resigns as Deputy Assistant Secretary for Legislative Affairs

The Department of Treasury today announced the resignation of Mimi Feller as Deputy Assistant Secretary for Legislative Affairs, effective December 27, 1985.

Ms. Feller will become Vice President -- Government Relations for Gannett Company, Inc., a media company that includes USA Today and other newspapers, as well as television and radio stations and the Lou Harris Poll.

Ms. Feller joined the Legislative Affairs office at Treasury in November 1983, after six years on the staff of U.S. Senator John Chafee and several assignments with the General Services Administration. She earned a doctor of law degree in 1981 at the Georgetown University Law Center.

While at Treasury, Ms. Feller played an important role in the passage of tax reform legislation in the House of Representatives. She was also involved in the Administration's legislative proposals for international trade, appropriations, and general economic issues.

A native of Omaha, Nebraska, Ms. Feller is a member of the D.C. Bar and has been selected an "Outstanding Young Woman of America."

# # #

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 12:00 NOON

January 10, 1986

## TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately \$9,000 million of 364-day Treasury bills to be dated January 23, 1986, and to mature January 22, 1987 (CUSIP No. 912794 LT 9). This issue will provide about \$450 million of new cash for the Treasury, as the maturing 52-week bill is outstanding in the amount of \$8,556 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Thursday, January 16, 1986.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. This series of bills will be issued entirely in book-entry form in a minimum amount of \$10,000 and in any higher \$5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

The bills will be issued for cash and in exchange for Treasury bills maturing January 23, 1986. In addition to the maturing 52-week bills, there are \$14,230 million of maturing 13-week and 26-week bills and \$4,010 million of maturing 69-day cash management bills. The disposition of these two latter amounts will be announced next week. Federal Reserve Banks currently hold \$2,129 million as agents for foreign and international monetary authorities, and \$4,516 million for their own account. These amounts represent the combined holdings of such accounts for the four issues of maturing bills. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rate of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold \$50 million of the original 52-week issue. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-1.

Each tender must state the par amount of bills bid for, which must be a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than \$1,000,000.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

A noncompetitive bidder may not have entered into an agreement, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned prior to the designated closing time for receipt of tenders.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills. In addition, Treasury Tax and Loan Note Option Depositories may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

For Immediate Release

January 13, 1986

## MARGERY WAXMAN TO LEAVE TREASURY

Margery Waxman, Deputy General Counsel of the Treasury since August, 1981, will leave the Treasury Department on January 17 to become a partner in the Washington office of Sidley and Austin, a Chicago law firm.

Prior to joining the Treasury Department, Ms. Waxman was General Counsel of the Office of Personnel Management. She is a former Executive Director of the Federal Trade Commission. Other federal government posts in which she has served include Deputy General Counsel of the Cost of Living Council and Assistant General Counsel of the White House Office of Consumer Affairs.

Ms. Waxman holds a J.D., with high honors, from George Washington Law School (1967), where she was editor of the Law Review, and a B.A., cum laude, in English literature, from Smith College (1964).

On December 12 President Reagan awarded Ms. Waxman the Distinguished Rank Award for her work on the Treasury Department's first foreign-targeted securities issue and the reorganization of the Continental Illinois National Bank.

# # #

B-431

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

January 13, 1986

## RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for \$7,423 million of 13-week bills and for \$7,431 million of 26-week bills, both to be issued on January 16, 1986, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills			:	26-week bills		
	maturing April 17, 1986			:	maturing July 17, 1986		
	Discount	Investment		:	Discount	Investment	
	Rate	Rate 1/	Price	:	Rate	Rate 1/	Price
Low	7.18%	7.41%	98.185	:	7.28% <sup>a/</sup>	7.66%	96.320
High	7.23%	7.47%	98.172	:	7.28%	7.66%	96.320
Average	7.23%	7.47%	98.172	:	7.28%	7.66%	96.320

<sup>a/</sup> Excepting 1 tender of \$500,000.

Tenders at the high discount rate for the 13-week bills were allotted 100%.  
Tenders at the high discount rate for the 26-week bills were allotted 85%.

## TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	\$ 39,305	\$ 39,305	:	\$ 27,625	\$ 27,625
New York	17,952,520	6,072,520	:	20,823,990	6,607,015
Philadelphia	39,280	39,280	:	21,485	21,485
Cleveland	49,580	49,580	:	32,685	32,685
Richmond	66,675	56,675	:	42,270	34,270
Atlanta	64,490	54,490	:	118,225	35,185
Chicago	1,480,700	307,200	:	1,552,660	70,660
St. Louis	88,270	48,270	:	91,290	51,290
Minneapolis	55,150	55,150	:	26,490	11,490
Kansas City	61,765	61,765	:	52,830	52,830
Dallas	45,655	35,655	:	33,300	23,300
San Francisco	1,119,745	238,745	:	1,002,825	59,725
Treasury	364,070	364,070	:	403,280	403,280
<b>TOTALS</b>	<b>\$21,427,205</b>	<b>\$7,422,705</b>	<b>:</b>	<b>\$24,228,955</b>	<b>\$7,430,840</b>
<u>Type</u>					
Competitive	\$18,357,830	\$4,353,330	:	\$21,033,490	\$4,235,375
Noncompetitive	1,267,510	1,267,510	:	975,000	975,000
Subtotal, Public	\$19,625,340	\$5,620,840	:	\$22,008,490	\$5,210,375
Federal Reserve	1,616,530	1,616,530	:	1,600,000	1,600,000
Foreign Official Institutions	185,335	185,335	:	620,465	620,465
<b>TOTALS</b>	<b>\$21,427,205</b>	<b>\$7,422,705</b>	<b>:</b>	<b>\$24,228,955</b>	<b>\$7,430,840</b>

An additional \$59,865 thousand of 13-week bills and an additional \$205,935 thousand of 26-week bills will be issued to foreign official institutions for new cash.

<sup>1/</sup> Equivalent coupon-issue yield.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M.

January 14, 1986

## TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately \$14,400 million, to be issued January 23, 1986. This offering will result in a paydown for the Treasury of about \$3,850 million, as the maturing bills total \$18,240 million (including the 69-day cash management bills issued November 15, 1985, in the amount of \$4,010 million). Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Tuesday, January 21, 1986. The two series offered are as follows:

91-day bills (to maturity date) for approximately \$7,200 million, representing an additional amount of bills dated October 24, 1985, and to mature April 24, 1986 (CUSIP No. 912794 KC 7), currently outstanding in the amount of \$6,969 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately \$7,200 million, to be dated January 23, 1986, and to mature July 24, 1986 (CUSIP No. 912794 KX 1).

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Both series of bills will be issued entirely in book-entry form in a minimum amount of \$10,000 and in any higher \$5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

The bills will be issued for cash and in exchange for Treasury bills maturing January 23, 1986. In addition to the maturing 13-week and 26-week bills, there are \$8,556 million of maturing 52-week bills. The disposition of this latter amount was announced last week. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rates of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold \$2,149 million of the original 13-week and 26-week issues. Federal Reserve Banks currently hold \$2,199 million as agents for foreign and international monetary authorities, and \$4,516 million for their own account. These amounts represent the combined holdings of such accounts for the four issues of maturing bills. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).



Each tender must state the par amount of bills bid for, which must be a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than \$1,000,000.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

A noncompetitive bidder may not have entered into an agreement, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned prior to the designated closing time for receipt of tenders.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills. In addition, Treasury Tax and Loan Note Option Depositaries may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

FOR IMMEDIATE RELEASE

January 15, 1986

FEDERAL FINANCING BANK ACTIVITY

Francis X. Cavanaugh, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of November 1985.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled \$154.1 billion on November 30, 1985, posting an increase of \$0.6 billion from the level on October 31, 1985. This net change was the result of increases in holdings of agency assets and agency-guaranteed debt of \$0.2 billion each and in holdings of agency debt of \$0.1 billion. FFB made 267 disbursements during November.

Attached to this release are tables presenting FFB November loan activity, commitments entered during November, and FFB holdings as of November 30, 1985.

# 0 #

## NOVEMBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi- annual)	INTEREST RATE (other than semi-annual)
<u>ON-BUDGET AGENCY DEBT</u>					
<u>TENNESSEE VALLEY AUTHORITY</u>					
Advance #531	11/1	\$ 80,000,000.00	11/7/85	7.545%	
Advance #532	11/1	42,000,000.00	11/11/85	7.545%	
Advance #533	11/4	259,000,000.00	11/11/85	7.555%	
Advance #534	11/7	244,000,000.00	11/14/85	7.615%	
Advance #535	11/11	36,000,000.00	11/15/85	7.585%	
Advance #536	11/11	280,000,000.00	11/18/85	7.585%	
Advance #537	11/14	305,000,000.00	11/21/85	7.645%	
Advance #538	11/18	276,000,000.00	11/25/85	7.715%	
Advance #539	11/21	285,000,000.00	11/27/85	7.615%	
Advance #541	11/25	35,000,000.00	12/1/85	7.585%	
Advance #542	11/25	234,000,000.00	12/2/85	7.585%	
Advance #543	11/27	290,000,000.00	12/5/85	7.555%	
Advance #544	11/30	151,000,000.00	12/9/85	7.515%	
<u>NATIONAL CREDIT UNION ADMINISTRATION</u>					
<u>Central Liquidity Facility</u>					
+Note #366	11/5	15,000,000.00	2/4/86	7.605%	
+Note #367	11/13	1,369,000.00	2/11/86	7.585%	
+Note #368	11/13	250,000.00	2/11/86	7.585%	
+Note #369	11/13	7,875,000.00	2/11/86	7.585%	
+Note #370	11/19	500,000.00	2/18/86	7.605%	
+Note #371	11/21	29,650,000.00	2/19/86	7.615%	
<u>AGENCY ASSETS</u>					
<u>FARMERS HOME ADMINISTRATION</u>					
<u>Certificates of Beneficial Ownership</u>					
	11/1	75,000,000.00	11/1/00	10.405%	10.676% ann.
	11/25	145,000,000.00	11/1/00	10.045%	10.297% ann.
<u>GOVERNMENT - GUARANTEED LOANS</u>					
<u>DEPARTMENT OF DEFENSE</u>					
<u>Foreign Military Sales</u>					
Spain 8	11/1	10,661.00	3/25/96	8.765%	
Philippines 10	11/5	442,411.00	7/15/92	9.515%	
Spain 5	11/7	8,130,282.70	6/15/91	9.604%	
Thailand 12	11/7	2,102,286.00	3/20/96	9.855%	
Turkey 17	11/7	117,825.93	11/30/13	10.425%	
Botswana 4	11/12	1,528,900.00	7/25/92	8.221%	
Greece 15	11/12	11,161,826.08	6/15/12	10.147%	
Peru 10	11/12	153,038.53	4/10/96	9.884%	
Greece 14	11/14	10,631.91	4/30/11	10.305%	
Jordan 11	11/14	284,214.90	11/15/92	8.364%	
Peru 10	11/14	40,894.62	4/10/96	9.845%	
Spain 8	11/14	6,522,760.82	3/25/96	8.800%	
Tunisia 16	11/14	6,147.00	2/5/96	9.925%	
Turkey 17	11/14	6,200.00	11/30/13	10.295%	
Liberia 10	11/19	28,721.27	5/15/95	9.825%	
Niger 2	11/19	50,000.00	10/15/90	8.235%	
Peru 10	11/19	249,389.00	4/10/96	9.795%	
Turkey 17	11/19	17,803,481.52	11/30/13	10.233%	
Indonesia 10	11/20	1,998,478.69	3/20/93	9.229%	

+rollover

## FEDERAL FINANCING BANK

## NOVEMBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi- annual)	INTEREST RATE (other than semi-annual)
<u>Foreign Military Sales (Cont'd)</u>					
Greece 15	11/20	\$ 882,618.02	6/15/12	10.055%	
Tunisia 17	11/20	277,794.00	9/15/96	9.383%	
Botswana 4	11/20	164,843.52	7/25/92	8.647%	
Turkey 17	11/27	1,342,027.07	11/30/13	10.155%	
Colombia 6	11/29	1,740,000.00	6/30/91	7.841%	
Colombia 7	11/29	737,134.00	9/5/91	7.555%	
Egypt 6	11/29	4,005,067.50	4/15/14	10.105%	
Turkey 17	11/29	447,575.06	11/30/13	10.105%	
<u>DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</u>					
<u>Community Development</u>					
*Lorain, OH	11/1	1,000,000.00	11/1/90	9.232%	9.445% ann.
Syracuse, NY	11/8	22,500.00	7/1/03	10.157%	10.415% ann.
Syracuse, NY	11/8	72,500.00	7/1/03	10.157%	10.415% ann.
Hialeah, FL	11/13	133,879.45	12/1/85	7.575%	
Hialeah, FL	11/13	285,229.30	12/1/85	7.575%	
Lynn, MA	11/13	125,579.52	8/15/86	7.855%	7.960% ann.
Newport News, VA	11/13	15,700.00	2/15/86	7.595%	
Council Bluffs, IA	11/19	61,078.00	5/31/86	7.805%	7.822% ann.
Indianapolis, IN	11/19	300,000.00	2/1/86	7.595%	
Janesville, WI	11/19	320,000.00	2/1/86	7.595%	
Hialeah, FL	11/27	6,543.10	12/1/85	7.555%	
Newport News, VA	11/27	602,500.00	2/15/86	7.555%	
Oakland, CA	11/27	220,000.00	9/2/03	9.943%	10.190% ann.
Saginaw, MI	11/27	2,000,000.00	10/1/86	7.955%	8.084% ann.
Peoria, IL	11/27	5,945,000.00	2/1/86	7.555%	
<u>DEPARTMENT OF THE NAVY</u>					
<u>Ship Lease Financing</u>					
Cobb	11/15	42,895,000.00	1/15/86	7.685%	
Cobb	11/15	22,000,000.00	12/10/85	7.685%	
Lopez	11/20	113,852,682.12	1/15/86	7.575%	
Lopez Container	11/20	2,200,359.00	1/15/86	7.575%	
<u>Defense Production Act</u>					
Gila River Indian Community	11/20	400,887.78	10/1/92	9.265%	9.160% qtr.
<u>RURAL ELECTRIFICATION ADMINISTRATION</u>					
Saluda River Electric #271	11/1	305,000.00	1/2/18	10.429%	10.296% qtr.
*Saluda River Electric #186	11/1	3,454,000.00	1/2/18	10.436%	10.303% qtr.
Corn Belt Power #138	11/4	41,000.00	11/4/87	8.835%	8.740% qtr.
Corn Belt Power #292	11/4	478,000.00	12/31/87	8.905%	8.808% qtr.
New Hampshire Electric #270	11/4	1,225,000.00	1/2/18	10.396%	10.264% qtr.
*Saluda River Electric #186	11/4	1,728,000.00	12/31/15	10.399%	10.267% qtr.
*United Power #139	11/4	2,900,000.00	11/2/88	9.165%	9.062% qtr.
*Brazos Electric #108	11/4	1,555,000.00	12/31/15	10.399%	10.267% qtr.
*Brazos Electric #144	11/4	1,284,000.00	12/31/15	10.399%	10.267% qtr.
*S. Mississippi Electric #171	11/4	2,500,000.00	11/4/87	8.835%	8.740% qtr.
*Colorado Ute Electric #71	11/4	2,387,000.00	11/4/87	8.835%	8.740% qtr.
*Hoosier Energy #107	11/5	20,000,000.00	12/31/15	10.390%	10.258% qtr.
*Sunflower Electric #174	11/6	15,000,000.00	11/6/87	8.815%	8.720% qtr.
*Central Electric #243	11/7	2,138,000.00	11/7/87	8.795%	8.700% qtr.
*West Virginia Telephone #17	11/7	1,000,000.00	12/31/13	10.349%	10.218% qtr.
*Associated Electric #20	11/8	10,482,149.00	1/3/17	10.335%	10.205% qtr.
*Associated Electric #132	11/8	19,400,000.00	12/31/14	10.337%	10.207% qtr.
*Associated Electric #132	11/8	12,500,000.00	12/31/14	10.338%	10.208% qtr.
*Associated Electric #132	11/8	31,000,000.00	12/31/14	10.338%	10.208% qtr.

\*maturity extension

FEDERAL FINANCING BANK

NOVEMBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi- annual)	INTEREST RATE (other than semi-annual)
<u>RURAL ELECTRIFICATION ADMINISTRATION (Cont'd)</u>					
*Associated Electric #132	11/8	\$ 7,700,000.00	1/3/17	10.334%	10.204% qtr.
*Associated Electric #132	11/8	1,000,000.00	1/3/17	10.334%	10.204% qtr.
*Associated Electric #132	11/8	6,000,000.00	1/3/17	10.335%	10.205% qtr.
*Associated Electric #132	11/8	10,000,000.00	1/3/17	10.336%	10.206% qtr.
*Associated Electric #132	11/8	17,253,000.00	1/3/17	10.336%	10.206% qtr.
*Associated Electric #132	11/8	4,243,000.00	12/31/18	10.333%	10.203% qtr.
*Associated Electric #132	11/8	3,547,000.00	12/31/18	10.334%	10.204% qtr.
*Associated Electric #132	11/8	1,670,000.00	12/31/18	10.335%	10.205% qtr.
*Cont. Tel. of Kentucky #47	11/8	1,500,000.00	12/31/13	10.339%	10.209% qtr.
United Power #129	11/8	2,116,000.00	12/31/19	10.334%	10.204% qtr.
Central Electric #131	11/8	137,000.00	11/9/87	8.795%	8.700% qtr.
*Western Illinois Power #162	11/12	2,702,000.00	12/31/15	10.281%	10.152% qtr.
*Oglethorpe Power #74	11/12	13,625,000.00	12/31/15	10.281%	10.152% qtr.
*Oglethorpe Power #150	11/12	14,639,000.00	12/31/15	10.281%	10.152% qtr.
*Wabash Valley Power #104	11/12	2,687,000.00	11/12/87	8.705%	8.612% qtr.
*Cajun Electric #180	11/12	8,974,000.00	1/2/18	10.280%	10.151% qtr.
*Fast Kentucky Power #140	11/12	267,000.00	12/31/14	10.280%	10.151% qtr.
*Fast Kentucky Power #140	11/12	1,570,000.00	12/31/16	10.279%	10.150% qtr.
*Fast Kentucky Power #140	11/12	900,000.00	12/31/16	10.280%	10.151% qtr.
*Fast Kentucky Power #188	11/12	6,131,000.00	12/31/16	10.280%	10.151% qtr.
*Wolverine Power #101	11/12	50,000.00	12/31/87	8.763%	8.669% qtr.
*Wolverine Power #101	11/12	210,000.00	12/31/87	8.763%	8.669% qtr.
*Wolverine Power #183	11/12	3,447,000.00	11/10/88	9.035%	8.935% qtr.
*Wolverine Power #234	11/12	3,944,000.00	11/12/87	8.705%	8.612% qtr.
*Wolverine Power #100	11/13	1,305,000.00	12/31/87	8.714%	8.621% qtr.
*Wolverine Power #101	11/13	1,668,000.00	12/31/87	8.714%	8.621% qtr.
*Brazos Electric #108	11/13	2,500,000.00	12/31/13	10.178%	10.052% qtr.
*Cajun Electric #197	11/13	40,000,000.00	11/14/88	8.985%	8.886% qtr.
*Colorado Ute Electric #96	11/13	1,486,000.00	11/13/87	8.655%	8.563% qtr.
*Plains Electric #158	11/14	6,581,000.00	1/3/87	10.216%	10.089% qtr.
*Wabash Valley Power #206	11/14	9,028,000.00	1/16/87	8.715%	8.622% qtr.
*Central Electric #131	11/15	170,000.00	12/31/13	10.279%	10.150% qtr.
Upper Missouri G&T #283	11/15	1,700,000.00	12/31/87	8.825%	8.730% qtr.
*New Hampshire Electric #192	11/15	1,185,000.00	1/2/18	10.276%	10.147% qtr.
*Fast Kentucky Power #73	11/15	6,790,000.00	12/31/15	10.278%	10.149% qtr.
Cooperative Power #156	11/18	1,639,000.00	11/18/87	8.785%	8.691% qtr.
*East Kentucky Power #73	11/18	2,500,000.00	12/31/15	10.334%	10.204% qtr.
*Colorado Ute Electric #152	11/18	1,080,000.00	11/18/87	8.785%	8.691% qtr.
*Tri-State G&T #37	11/18	100,000.00	12/31/13	10.339%	10.209% qtr.
*Tri-State G&T #37	11/18	100,000.00	12/31/13	10.340%	10.210% qtr.
*Tri-State G&T #37	11/18	50,000.00	12/31/13	10.340%	10.210% qtr.
*Tri-State G&T #37	11/18	35,000.00	12/31/13	10.340%	10.210% qtr.
*Tri-State G&T #37	11/18	16,000.00	12/31/14	10.338%	10.208% qtr.
*Tri-State G&T #37	11/18	72,000.00	12/31/14	10.338%	10.208% qtr.
*Tri-State G&T #37	11/18	14,000.00	12/31/14	10.339%	10.209% qtr.
*Tri-State G&T #37	11/18	11,000.00	12/31/14	10.339%	10.209% qtr.
*Tri-State G&T #37	11/18	24,000.00	12/31/14	10.339%	10.209% qtr.
*Tri-State G&T #37	11/18	17,000.00	12/31/14	10.339%	10.209% qtr.
*Tri-State G&T #79	11/18	1,377,000.00	12/31/14	10.339%	10.209% qtr.
*Tri-State G&T #79	11/18	7,048,000.00	12/31/14	10.339%	10.209% qtr.
*Tri-State G&T #79	11/18	408,000.00	12/31/14	10.340%	10.210% qtr.
*Tri-State G&T #89	11/18	8,172,000.00	12/31/13	10.339%	10.209% qtr.
*Tri-State G&T #89	11/18	6,429,000.00	12/31/13	10.339%	10.209% qtr.
*Tri-State G&T #89	11/18	12,700,000.00	12/31/13	10.339%	10.209% qtr.
*Tri-State G&T #89	11/18	7,969,000.00	12/31/13	10.339%	10.209% qtr.
*Tri-State G&T #89	11/18	7,484,000.00	12/31/13	10.339%	10.209% qtr.
*Tri-State G&T #250	11/18	10,927,000.00	12/31/19	10.333%	10.203% qtr.
Colorado Ute Electric #276	11/19	5,123,000.00	12/31/87	8.693%	8.601% qtr.
Colorado Ute Electric #297	11/19	8,475,000.00	12/31/87	8.693%	8.601% qtr.
Tex-La Electric #208	11/20	1,747,000.00	12/31/19	10.150%	10.024% qtr.
*Big Rivers Electric #58	11/20	4,340,000.00	12/31/12	10.146%	10.020% qtr.
*Big Rivers Electric #91	11/20	3,780,000.00	12/31/12	10.146%	10.020% qtr.

\*maturity extension

## FEDERAL FINANCING BANK

## NOVEMBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi- annual)	INTEREST RATE (other than semi-annual)
<u>RURAL ELECTRIFICATION ADMINISTRATION (Cont'd)</u>					
*Seminole Electric #141	11/21	\$ 10,548,000.00	12/31/15	10.150%	10.024% qtr.
*Seminole Electric #141	11/21	9,126,000.00	12/31/15	10.150%	10.024% qtr.
*Seminole Electric #141	11/21	3,533,000.00	12/31/15	10.148%	10.022% qtr.
Oglethorpe Power #246	11/21	17,291,000.00	12/31/19	10.149%	10.023% qtr.
Associated Electric #132	11/21	3,760,000.00	12/31/19	10.149%	10.023% qtr.
*San Miguel Electric #110	11/21	3,688,000.00	11/23/87	8.665%	8.573% qtr.
*San Miguel Electric #205	11/21	4,600,000.00	11/23/87	8.665%	8.573% qtr.
*S. Mississippi Electric #4	11/22	824,000.00	12/31/12	9.919%	9.799% qtr.
*S. Mississippi Electric #90	11/22	1,321,000.00	12/31/12	9.919%	9.799% qtr.
South Texas Electric #200	11/25	286,000.00	12/31/19	10.114%	9.989% qtr.
*Wabash Valley Power #206	11/25	694,000.00	11/25/87	8.655%	8.563% qtr.
*Brazos Electric #230	11/25	1,788,000.00	1/2/18	10.119%	9.994% qtr.
*Past River Electric #117	11/25	1,200,000.00	11/25/88	8.915%	8.815% qtr.
*Seminole Electric #141	11/25	2,469,000.00	12/31/14	10.127%	10.002% qtr.
*Sunflower Electric #174	11/25	15,000,000.00	12/31/85	7.585%	
New Hampshire Electric #270	11/27	924,000.00	1/2/18	10.122%	9.997% qtr.
North Carolina Electric #268	11/27	2,398,000.00	1/2/18	10.122%	9.997% qtr.
*S. Mississippi Electric #90	11/29	309,000.00	12/31/12	9.947%	9.826% qtr.
*Sho-Me Power #114	11/29	3,250,000.00	12/31/12	10.081%	9.957% qtr.
*Sho-Me Power #164	11/29	1,200,000.00	12/31/14	10.082%	9.958% qtr.
*Sho-Me Power #164	11/29	1,320,000.00	12/31/15	10.078%	9.954% qtr.
*Sho-Me Power #164	11/29	700,000.00	12/31/17	10.075%	9.951% qtr.
*Sho-Me Power #164	11/29	1,400,000.00	12/31/18	10.073%	9.949% qtr.

SMALL BUSINESS ADMINISTRATIONState & Local Development Company Debentures

Pioneer Country Dev., Inc.	11/6	23,000.00	11/1/00	10.089%	
Atlanta Local Dev. Co.	11/6	51,000.00	11/1/00	10.089%	
Texas Panhandle Reg. Dev. Corp.	11/6	60,000.00	11/1/00	10.089%	
Areawide Dev. Corp.	11/6	80,000.00	11/1/00	10.089%	
St. Louis County LDC	11/6	84,000.00	11/1/00	10.089%	
Georgia Mountains Reg. E.D.C.	11/6	126,000.00	11/1/00	10.089%	
East Texas Regional Dev. Co.	11/6	142,000.00	11/1/00	10.089%	
Troup County IDC	11/6	143,000.00	11/1/00	10.089%	
Wisconsin Bus. Dev. Fin. Corp.	11/6	162,000.00	11/1/00	10.089%	
S.C. Kansas P.C. Dev. Dis., Inc.	11/6	220,000.00	11/1/00	10.089%	
Columbus Countywide Dev. Corp.	11/6	223,000.00	11/1/00	10.089%	
Cumberland-Allegheny CIF, Inc.	11/6	231,000.00	11/1/00	10.089%	
St. Louis County LDC	11/6	271,000.00	11/1/00	10.089%	
P. Texas Regional Dev. Co.	11/6	298,000.00	11/1/00	10.089%	
Northeast Louisiana Ind., Inc.	11/6	307,000.00	11/1/00	10.089%	
Massachusetts CDC	11/6	354,000.00	11/1/00	10.089%	
Mahoning Valley E.D. Corp.	11/6	421,000.00	11/1/00	10.089%	
Texas CDC, Inc.	11/6	456,000.00	11/1/00	10.089%	
Dallas Sm. Bus. Corp., Inc.	11/6	500,000.00	11/1/00	10.089%	
Topeka/Shawnee County Dev Corp	11/6	27,000.00	11/1/05	10.294%	
Greater S.W. Kansas CDC	11/6	49,000.00	11/1/05	10.294%	
1st Imperial Polk F.D.C., Inc.	11/6	53,000.00	11/1/05	10.294%	
Lake County Sm. Bus. 503 Corp.	11/6	55,000.00	11/1/05	10.294%	
P.D.C. of Nebraska	11/6	58,000.00	11/1/05	10.294%	
Prince George's County F.S.C.	11/6	67,000.00	11/1/05	10.294%	
Verd-Ark-Ca Dev. Corp.	11/6	68,000.00	11/1/05	10.294%	
Texas Panhandle Reg. Dev. Corp.	11/6	74,000.00	11/1/05	10.294%	
Historic 25th St. Dev. Co.	11/6	86,000.00	11/1/05	10.294%	
P.D.C. of Jefferson County	11/6	89,000.00	11/1/05	10.294%	
Gr. Eastern Oregon Dev. Corp.	11/6	90,000.00	11/1/05	10.294%	
Port Jervis Dev. Corp.	11/6	114,000.00	11/1/05	10.294%	
San Diego County LDC	11/6	117,000.00	11/1/05	10.294%	
New Castle County F.D.C.	11/6	118,000.00	11/1/05	10.294%	
Opportunities Minnesota, Inc.	11/6	121,000.00	11/1/05	10.294%	
San Diego County IDC	11/6	138,000.00	11/1/05	10.294%	

\*maturity extension

## FEDERAL FINANCING BANK

## NOVEMBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INITIAL RATE (semi- annual)	INTEREST RATE (other than semi-annual)
State & Local Development Company Debentures (Cont'd)					
Tucson LDC	11/6	\$ 147,000.00	11/1/05	10.294%	
Jacksonville LDC, Inc.	11/6	155,000.00	11/1/05	10.294%	
Indiana Statewide CDC	11/6	169,000.00	11/1/05	10.294%	
St. Louis County LDC	11/6	170,000.00	11/1/05	10.294%	
Evergreen Community Dev. Assoc.	11/6	182,000.00	11/1/05	10.294%	
Indiana Statewide CDC	11/6	182,000.00	11/1/05	10.294%	
Troup County LDC	11/6	184,000.00	11/1/05	10.294%	
Tucson LDC	11/6	191,000.00	11/1/05	10.294%	
Mid-Ohio Valley Area Dev. Corp.	11/6	211,000.00	11/1/05	10.294%	
Community D.C. of Ft. Wayne	11/6	212,000.00	11/1/05	10.294%	
Parkersburg-Wood C.A.D. Corp.	11/6	228,000.00	11/1/05	10.294%	
Minneapolis 503 Ec. Dev. Co.	11/6	228,000.00	11/1/05	10.294%	
Long Island Dev. Corp.	11/6	246,000.00	11/1/05	10.294%	
Topeka/Shawnee Cnty. Dev. Corp.	11/6	265,000.00	11/1/05	10.294%	
Butte County Overall E.D., Inc.	11/6	266,000.00	11/1/05	10.294%	
San Diego County LDC	11/6	278,000.00	11/1/05	10.294%	
San Diego County LDC	11/6	278,000.00	11/1/05	10.294%	
E. Gen. Michigan Dev. Corp.	11/6	294,000.00	11/1/05	10.294%	
Enterprise Dev. Corp.	11/6	305,000.00	11/1/05	10.294%	
Long Island Dev. Corp.	11/6	370,000.00	11/1/05	10.294%	
North Georgia CDC	11/6	407,000.00	11/1/05	10.294%	
Milwaukee Ec. Dev. Corp.	11/6	420,000.00	11/1/05	10.294%	
Long Island Dev. Corp.	11/6	460,000.00	11/1/05	10.294%	
Southern Dev. Council, Inc.	11/6	30,000.00	11/1/10	10.388%	
Big Lakes CDC	11/6	65,000.00	11/1/10	10.388%	
Calexico Industrial Dev. Co.	11/6	75,000.00	11/1/10	10.388%	
Texas CDC, Inc.	11/6	76,000.00	11/1/10	10.388%	
New Haven Community Inv. Corp.	11/6	82,000.00	11/1/10	10.388%	
Old Colorado City Dev. Co.	11/6	83,000.00	11/1/10	10.388%	
Gr. Southwest Kansas CDC	11/6	84,000.00	11/1/10	10.388%	
Area Investment & Dev. Corp.	11/6	89,000.00	11/1/10	10.388%	
Cascades W. Fin. Svcs., Inc.	11/6	100,000.00	11/1/10	10.388%	
San Diego County LDC	11/6	103,000.00	11/1/10	10.388%	
San Diego County LDC	11/6	121,000.00	11/1/10	10.388%	
Alabama Community Dev. Corp.	11/6	121,000.00	11/1/10	10.388%	
Georgia Mountains Reg. E.D.C.	11/6	124,000.00	11/1/10	10.388%	
San Diego County LDC	11/6	131,000.00	11/1/10	10.388%	
Pocono NE Enterprise Dev. Corp.	11/6	133,000.00	11/1/10	10.388%	
Los Medanos Fund	11/6	150,000.00	11/1/10	10.388%	
Gr. Eastern Oregon Dev. Corp.	11/6	163,000.00	11/1/10	10.388%	
San Diego County LDC	11/6	172,000.00	11/1/10	10.388%	
St. Louis County LDC	11/6	175,000.00	11/1/10	10.388%	
Columbia River Dev. Assoc.	11/6	177,000.00	11/1/10	10.388%	
Lake Country Dev. Corp.	11/6	210,000.00	11/1/10	10.388%	
San Francisco Indus. Dev. Fund	11/6	242,000.00	11/1/10	10.388%	
St. Louis LDC	11/6	256,000.00	11/1/10	10.388%	
New Haven Community Inv. Corp.	11/6	279,000.00	11/1/10	10.388%	
Evergreen Community Dev. Assoc.	11/6	293,000.00	11/1/10	10.388%	
Montgomery County B.D.C.	11/6	336,000.00	11/1/10	10.388%	
Bay Area Bus. Dev. Co.	11/6	378,000.00	11/1/10	10.388%	
N. Reg. Planning Com., Inc.	11/6	387,000.00	11/1/10	10.388%	
Bay Area Business Dev. Co.	11/6	392,000.00	11/1/10	10.388%	
Bay Area Business Dev. Co.	11/6	406,000.00	11/1/10	10.388%	
Phoenix LD Corp.	11/6	410,000.00	11/1/10	10.388%	
Areawide Dev. Corp.	11/6	420,000.00	11/1/10	10.388%	
Bay Area Business Dev. Co.	11/6	428,000.00	11/1/10	10.388%	
Union County Ec. Dev. Corp.	11/6	480,000.00	11/1/10	10.388%	
La Habra LD Co., Inc.	11/6	500,000.00	11/1/10	10.388%	
San Diego County LD Corp.	11/6	500,000.00	11/1/10	10.388%	



## FEDERAL FINANCING BANK

## NOVEMBER 1985 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi- annual)	INTEREST RATE (other than semi-annual)
----------	------	----------------------	-------------------	---------------------------------------	---

TENNESSEE VALLEY AUTHORITYSeven States Energy Corporation

+Note A-86-02	11/29	\$ 600,652,205.92	2/28/86	7.565%	
---------------	-------	-------------------	---------	--------	--

+rollover

=====

FEDERAL FINANCING BANK  
NOVEMBER 1985 Commitments

BORROWER	GUARANTOR	AMOUNT	COMMITMENT EXPIRES	MATURITY
Wilmington Trust (Lopez)	Navy	\$ 210,000,000.00	2/20/91	7/15/10
Wilmington Trust (Lopez Container)	Navy	4,000,000.00	2/20/91	7/15/10
Wilmington Trust (Cobb)	Navy	75,000,000.00	2/15/91	7/15/05
Medford, MA	HUD	4,425,000.00	8/1/87	8/1/87
Pasadena, CA	HUD	710,000.00	2/1/87	2/1/87
Peoria, IL	HUD	5,945,000.00	2/1/86	2/1/86
Oakland, CA	HUD	2,500,000.00	9/1/86	9/1/04
Rochester, NY	HUD	1,390,000.00	8/31/86	8/31/04
Syracuse Industrial Dev. Agency	HUD	456,500.00	7/1/86	7/1/03
Syracuse Industrial Dev. Agency	HUD	22,500.00	7/1/86	7/1/03

FEDERAL FINANCING BANK HOLDINGS  
(in millions)

<u>Program</u>	<u>November 30, 1985</u>	<u>October 31, 1985</u>	<u>Net Change 11/1/85-11/30/85</u>	<u>Net Change--FY 1985 10/1/85-11/30/85</u>
<u>On-Budget Agency Debt</u>				
Tennessee Valley Authority	\$ 14,610.0	\$ 14,474.0	\$ 136.0	\$ 229.0
Export-Import Bank	15,409.0	15,409.0	-0-	-0-
NCUA-Central Liquidity Facility	219.6	219.3	0.3	-2.5
<u>Off-Budget Agency Debt</u>				
U.S. Postal Service	1,690.0	1,690.0	-0-	-0-
U.S. Railway Association	73.8	73.8	-0-	-0-
<u>Agency Assets</u>				
Farmers Home Administration	64,189.0	63,969.0	220.0	20.0
DHHS-Health Maintenance Org.	105.9	105.9	-0-	-3.3
DHHS-Medical Facilities	122.8	122.8	-0-	-0-
Overseas Private Investment Corp.	6.1	6.1	-0-	-0-
Rural Electrification Admin.-CBO	3,724.3	3,724.3	-0-	-0-
Small Business Administration	31.8	32.4	-0.5	-1.1
<u>Government-Guaranteed Lending</u>				
DOD-Foreign Military Sales	18,134.7	18,118.4	16.3	46.2
DFJ.-Student Loan Marketing Assn.	5,000.0	5,000.0	-0-	-0-
DHUD-Community Dev. Block Grant	303.1	299.6	3.5	13.7
DHUD-New Communities	33.5	33.5	-0-	-0-
DHUD-Public Housing Notes	2,111.4	2,146.2	-34.7	-34.7
General Services Administration	407.4	408.4	-1.0	-1.0
DOI-Guam Power Authority	35.1	35.1	-0-	-0-
DOI-Virgin Islands	28.2	28.2	-0-	-0-
NASA-Space Communications Co.	887.6	887.6	-0-	-0-
DOI-Ship Lease Financing	1,452.6	1,271.7	180.9	139.6
DOI-Defense Production Act	6.6	6.2	0.4	0.8
Oregon Veteran's Housing	60.0	60.0	-0-	-0-
Rural Electrification Admin.	21,826.0	21,792.4	33.6	150.5
SBA-Small Business Investment Cos.	1,043.6	1,048.3	-4.7	19.7
SPA-State/Local Development Cos.	635.0	616.6	18.4	39.4
TVA-Seven States Energy Corp.	1,670.5	1,655.1	15.4	19.1
DOT-Section 511	150.0	153.6	-3.6	-3.6
DOT-IMATA	177.0	177.0	-0-	-0-
<b>TOTALS*</b>	<b>\$ 154,144.9</b>	<b>\$ 153,564.6</b>	<b>\$ 580.4</b>	<b>\$ 631.7</b>

\*figures may not total due to rounding

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE  
January 15, 1986

CONTACT: ROBERT LEVINE  
Phone: (202) 566-2041

## TREASURY IMPLEMENTS BLOCKING OF LIBYAN GOVERNMENT ASSETS

The Department of the Treasury announced the issuance today of regulations implementing the President's Executive Order of January 8, 1986, which blocked Libyan Government property in the United States or held by U.S. persons. The regulations issued today amend the Libyan Sanctions Regulations, which were previously issued by the Treasury Department to implement the various economic measures included in the President's Executive Order of January 7, 1986.

The new regulations provide that Libyan property in the United States or held by U.S. persons as of 4:10 p.m. on January 8, the time when the President signed the Executive Order, are blocked and may not be transferred without a Treasury license. U.S. persons include, among other things, branches in the United States of foreign banks and foreign branches of U.S. banks, but not foreign subsidiaries of U.S. banks. Libyan Government property includes not only bank accounts, but also such other things as accounts receivable and goods to which the Libyan Government has title. Payments to the Libyan Government may be made only into blocked accounts.

Foreign currency accounts of the Libyan Government are not blocked, nor is property of private Libyan entities or individuals.

Limited exceptions will be available for certain transactions. These include payments from blocked accounts for goods shipped prior to 4:10 p.m. on January 8 and for certain checks (or drafts) issued prior to that time. Persons suffering particular hardship as a result of the imposition of the blocking may apply to Treasury's Office of Foreign Assets Control, 1331 G Street, Washington, D.C. 20220, for specific licenses authorizing exceptions. Licensing inquiries may be directed to Dennis M. O'Connell (tel. 202-276-0395), Kathryn Mann (202-376-0410), and Elizabeth Farrow (202-376-0969).

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M.

January 15, 1986

## TREASURY TO AUCTION \$9,500 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction \$9,500 million of 2-year notes to refund \$8,632 million of 2-year notes maturing January 31, 1986, and to raise about \$875 million new cash. The \$8,632 million of maturing 2-year notes are those held by the public, including \$566 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

The \$9,500 million is being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average price of accepted competitive tenders.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold \$596 million of the maturing securities that may be refunded by issuing additional amounts of the new notes at the average price of accepted competitive tenders.

Details about the new security are given in the attached highlights of the offering and in the official offering circular.

oOo

Attachment

HIGHLIGHTS OF TREASURY  
OFFERING TO THE PUBLIC  
OF 2-YEAR NOTES  
TO BE ISSUED JANUARY 31, 1986

January 15, 1986

Amount Offered:

To the public ..... \$9,500 million

Description of Security:

Term and type of security ..... 2-year notes  
Series and CUSIP designation .... V-1988  
(CUSIP No. 912827 TD 4)  
Maturity Date ..... January 31, 1988  
Call date ..... No provision  
Interest Rate ..... To be determined based on  
the average of accepted bids  
Investment yield ..... To be determined at auction  
Premium or discount ..... To be determined after auction  
Interest payment dates ..... July 31 and January 31  
Minimum denomination available .. \$5,000

Terms of Sale:

Method of sale ..... Yield auction  
Competitive tenders ..... Must be expressed as an  
annual yield, with two  
decimals, e.g., 7.10%  
Noncompetitive tenders ..... Accepted in full at the aver-  
age price up to \$1,000,000  
Accrued interest payable  
by investor ..... None  
Payment by non-  
institutional investors ..... Full payment to be  
submitted with tender  
Payment through Treasury Tax  
and Loan (TT&L) Note Accounts ... Acceptable for TT&L Note  
Option Depositories  
Deposit guarantee by  
designated institutions ..... Acceptable

Key Dates:

Receipt of tenders ..... Wednesday, January 22, 1986,  
prior to 1:00 p.m., EST  
Settlement (final payment  
due from institutions)  
a) cash or Federal funds ..... Friday, January 31, 1986  
b) readily-collectible check .. Wednesday, January 29, 1986



Statement Released after G-5 Meeting in London

January 18-19, 1986

The meeting was an informal one to take stock of developments since the meeting in New York on 22 September.

The Finance Ministers and Central Bank Governors were satisfied with the progress made so far. They agreed that their co-operation should continue and that the progress which had been made should not be reversed.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE  
January 21, 1986

CONTACT: Charles Powers  
(202) 566-2041

## TREASURY ANNOUNCES PENALTIES AGAINST BANK OF AMERICA

The Department of the Treasury today announced that Bank of America, NT&SA, has agreed to pay civil penalties of \$4.75 million for violations of the Bank Secrecy Act. The violations consist of failures to file Currency Transaction Reports for cash transactions exceeding \$10,000, as required under the Act. These violations include failures to report both international and domestic currency transactions.

In the wake of the publicity surrounding the Bank of Boston case in early 1985, Bank of America undertook a review of its past Bank Secrecy Act compliance. Concurrently, extensive non-compliance with the Act was confirmed by the Comptroller of the Currency during an examination in Spring 1985. Bank of America has cooperated fully with Treasury in developing the scope of its liability.

In announcing the penalty, Francis A. Keating, II, Assistant Secretary for Enforcement and Operations, stated: "The violations by Bank of America were widespread throughout the units and branch system of the bank. While Treasury has no information that the bank engaged in criminal activity in connection with these violations, it is certain given the volume and nature of violations that the non-filing of information about cash transactions deprived the Government of timely law enforcement leads in drug, tax and other investigations. Full compliance with the Bank Secrecy Act is imperative to effective law enforcement."

The number of violations by all the units of the bank is estimated to be over 17,000 violations. Mr. Keating stated, "Based on examinations by the Comptroller of the Currency and a review of the bank's compliance history, Treasury is confident that the penalty amount is appropriate." Bank of America has agreed to conduct a further review of cash transactions and to late-file additional currency transaction reports as required by Treasury. Bank of America has taken a number of measures indicative of its commitment to full compliance in the future.

This is the largest civil penalty Treasury has imposed on a financial institution for Bank Secrecy Act violations. In the last year over sixty banks have come forward to Treasury to discuss past Bank Secrecy Act non-compliance. Since June 1985, eleven other banks have been fined in amounts ranging from \$121,000 to \$2.25 million. The cases of the remaining banks are under review.



# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M.

January 21, 1986

## TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately \$14,400 million, to be issued January 30, 1986. This offering will not provide new cash for the Treasury, as the maturing bills are outstanding in the amount of \$14,412 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Monday, January 27, 1986. The two series offered are as follows:

91-day bills (to maturity date) for approximately \$7,200 million, representing an additional amount of bills dated October 31, 1985, and to mature May 1, 1986 (CUSIP No. 912794 KD 5), currently outstanding in the amount of \$7,167 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately \$7,200 million, to be dated January 30, 1986, and to mature July 31, 1986 (CUSIP No. 912794 KY 9).

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Both series of bills will be issued entirely in book-entry form in a minimum amount of \$10,000 and in any higher \$5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

The bills will be issued for cash and in exchange for Treasury bills maturing January 30, 1986. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rates of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. Federal Reserve Banks currently hold \$1,692 million as agents for foreign and international monetary authorities, and \$2,993 million for their own account. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

Each tender must state the par amount of bills bid for, which must be a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than \$1,000,000.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

A noncompetitive bidder may not have entered into an agreement, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned prior to the designated closing time for receipt of tenders.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills. In addition, Treasury Tax and Loan Note Option Depositories may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

January 21, 1986

## RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for \$7,200 million of 13-week bills and for \$7,206 million of 26-week bills, both to be issued on January 23, 1986, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills			:	26-week bills		
	maturing April 24, 1986			:	maturing July 24, 1986		
	Discount	Investment		:	Discount	Investment	
	Rate	Rate 1/	Price	:	Rate	Rate 1/	Price
Low	6.96% <sup>a/</sup>	7.18%	98.241	:	7.10%	7.47%	96.411
High	7.00%	7.22%	98.231	:	7.15%	7.52%	96.385
Average	6.98%	7.20%	98.236	:	7.14%	7.51%	96.390

<sup>a/</sup> Excepting 1 tender of \$615,000.

Tenders at the high discount rate for the 13-week bills were allotted 25%.  
Tenders at the high discount rate for the 26-week bills were allotted 20%.

## TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>	:	<u>Received</u>	<u>Accepted</u>
Boston	\$ 46,590	\$ 46,590	:	\$ 41,100	\$ 41,100
New York	16,556,830	5,769,555	:	16,496,550	5,850,550
Philadelphia	33,410	33,410	:	32,180	32,180
Cleveland	55,685	55,685	:	41,765	41,765
Richmond	82,945	79,945	:	49,355	49,355
Atlanta	60,020	60,020	:	120,355	119,355
Chicago	1,689,880	353,455	:	1,451,970	120,570
St. Louis	83,215	63,215	:	95,455	54,855
Minneapolis	20,260	18,760	:	20,070	20,070
Kansas City	56,780	54,905	:	56,520	56,520
Dallas	47,460	43,710	:	39,250	35,250
San Francisco	1,185,430	268,930	:	1,329,945	414,945
Treasury	352,090	352,090	:	369,615	369,615
<b>TOTALS</b>	<b>\$20,270,595</b>	<b>\$7,200,270</b>	:	<b>\$20,144,130</b>	<b>\$7,206,130</b>
<u>Type</u>			:		
Competitive	\$17,267,920	\$4,197,595	:	\$16,963,260	\$4,025,260
Noncompetitive	1,281,740	1,281,740	:	1,068,670	1,068,670
Subtotal, Public	\$18,549,660	\$5,479,335	:	\$18,031,930	\$5,093,930
Federal Reserve	1,469,735	1,469,735	:	1,400,000	1,400,000
Foreign Official Institutions	251,200	251,200	:	712,200	712,200
<b>TOTALS</b>	<b>\$20,270,595</b>	<b>\$7,200,270</b>	:	<b>\$20,144,130</b>	<b>\$7,206,130</b>

<sup>1/</sup> Equivalent coupon-issue yield.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE UPON DELIVERY  
SCHEDULED FOR 11:10 a.m. EST  
January 22, 1986

REMARKS BY  
THE HONORABLE JAMES A. BAKER, III  
SECRETARY OF THE TREASURY  
BEFORE THE BRETTON WOODS COMMITTEE  
JANUARY 22, 1986

The International Financial Institutions:  
The Challenges Ahead

I am pleased to have this opportunity to join you here today. The task you have undertaken -- to explain the workings and significance of the Bretton Woods institutions to our fellow citizens -- remains as important, and as difficult, as ever. But your activities are needed and appreciated. One of my reasons for wanting to join you at your annual meeting is to urge you to keep up the fine work you have done in the past.

For forty years, since the original Bretton Woods meetings, the International Monetary Fund and the International Bank for Reconstruction and Development have been focal points for the international community's efforts to facilitate and promote soundly based growth and development of the world economy. Over these years, not only has their role been important, but their record has been impressive. Yet it is in the past dozen years or so, as the world has experienced the oil crises of the 1970s and the debt crisis of the early 1980s, that these institutions have made their greatest contributions. Without the Bretton Woods institutions, we would certainly have emerged from these crises a poorer, more fragmented, less hopeful world.

Despite the fact that the international financial institutions have been playing an increasingly critical role, it must be acknowledged that public support has declined. One of the reasons may be the increasingly intense competition for federal budgetary resources. If so, the climate will hardly be more benign in the coming years than it has been in the past.

While I can hope the shocks of international economic crises are behind us, I know the problems we face are not. We will continue to need these institutions, and we will continue to need your help in mobilizing support for them.

The American public must understand that it is not just the rest of the world (nor just the developing countries) that would be the poorer without the international financial institutions -- the American public would be poorer, as well. The impact on U.S. exports of the debt-related economic downturn in Latin America and other developing countries may have brought this realization home to many people. Still, the message that growth in the developing world affects the level of employment here needs to be more widely understood.

Looking ahead, I see two main challenges to which the international financial institutions must respond. These institutions must play a major role in implementing the proposed "Program for Sustained Growth" in developing nations that lies at the heart of the current phase of our global debt strategy. Secondly, the International Monetary Fund remains at the center of our efforts to improve the functioning and stability of the international monetary system.

Your Committee's recent policy statement is a welcome contribution to the discussion in these areas, and I would like to share with you the Administration's latest thinking.

### The Debt Situation

Since the debt crisis emerged in 1982, considerable progress has been made in reducing the substantial current account deficits of the major debtor nations. The decline in growth in most of these countries has been reversed, and imports are increasing once again. However, progress in reducing domestic imbalances has been less impressive, and more needs to be done to assure a firm foundation for sustainable growth. Net commercial bank lending to support these efforts in the principal debtor countries has declined significantly, from \$25 billion in 1982 to virtually no net new lending in 1985.

As you know, at the Annual Meetings of the Bank and the Fund in Seoul last October, the United States proposed a "Program for Sustained Growth" that involved mutually reinforcing actions by debtor nations, the IMF and the multilateral development banks, and commercial banks. The response has been very positive and encouraging. We have received broad statements of support from the U.S. banking community and key foreign banks, the International Monetary Fund, the World Bank, and the Inter-American Development Bank, as well as positive responses from a number of the debtor nations.

Where do we go from here?

For the multilateral development banks, the next step will be enactment of reforms to streamline procedures and to enhance disbursements of loans conditioned for policy reforms.

We expect to see a growing stream of policy-based structural and sectoral adjustment loans from the World Bank and a strengthened emphasis on privatization, open markets, and increased savings and investment. The suggestion in your policy statement on developing capital markets should fit well with the Bank's efforts in this direction. We believe there should be both debt and equity market development, with the latter designed to facilitate the privatization process.

Total lending by the Bank in 1986 should be about \$2 billion higher than in 1985, with the share of policy-based loans rising substantially, concentrated in the principal debtor countries. The regional development banks should provide an additional increment of \$1 billion in lending in 1986.

We anticipate that adoption of reforms to support structural change in borrowing countries, well coordinated with the IMF, will be a key element in the negotiations for the Eighth Replenishment of the International Development Association which begin later this month.

We will also be working closely with the Inter-American Development Bank to encourage necessary procedural and policy reforms to support the U.S. initiative.

The IMF is already considering how to implement the kinds of reforms we are proposing, including greater emphasis on supply-side measures to help mobilize domestic savings and investment and on market-opening measures.

The banking community will need to devise its own mechanisms for implementing its commitment to increase net lending to support growth-oriented measures in the developing countries. We have a pledge of support from U.S. banks that account for 95 percent of exposure to the countries in question. Pledges of support from the banking industries in other countries have also been made directly to the World Bank and the International Monetary Fund.

Finally, and most importantly, we must now look to the debtor countries themselves to adopt the essential economic measures to carry out the U.S. proposal. This won't happen overnight, nor can we expect all of the principal debtor nations to pursue identical paths in this regard.

Some nations, such as Argentina and Mexico, have already begun, or will need, full-fledged negotiations with the IMF and the World Bank, which may take some time.

Other countries, such as Ecuador, Colombia, the Ivory Coast, Morocco and Uruguay, already have new bank financing, debt rescheduling and IMF programs in place, and are now in the process of negotiating additional structural or sectoral loan programs with the World Bank.

Ecuador, which signed a large World Bank loan last week, is an excellent example of a country that is adopting the sound economic policies that are fundamental to the approach we have proposed, and we hope others will follow.

We can continue to expect that implementation of the overall effort will be governed by the pace and type of negotiations by each individual debtor nation on economic programs with the IMF and the World Bank.

#### Improving the International Monetary System

A second challenge lying ahead of us is to advance our efforts to improve the international monetary system. The current system, in particular its flexibility, served us well as we passed through a period of global economic shocks. Its basic structure remains valid. At the same time, the system has been less stable than we would have liked, and exchange rate movements have been one factor -- though not the only one -- contributing to protectionist pressures.



In approaching the task of improving the international monetary system, I have found there is a near consensus that the key to stability is to encourage convergence of favorable economic performance among the major industrialized nations. The fundamental outstanding issue is how to encourage sovereign nations to pursue, in the words of your policy statement, "mutually consistent and reinforcing policies." At a minimum, we have to develop a more effective means of assuring that the international implications of domestic policies are taken into account.

As the center of our framework for international economic and financial cooperation, the IMF clearly has a central role to play, and our broad objective is to make the Fund more effective. The April meeting of its Interim Committee will have before it the reports of the Group of Ten and the Group of Twenty-Four on improving the international monetary system. These reports provide suggestions for improving the exchange rate system, international surveillance, arrangements concerning international liquidity, and the role of the IMF.

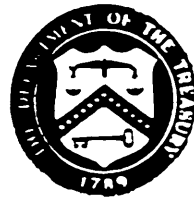
While these issues are almost always complex and often politically difficult, the recent accomplishments of the Group of Five constitute an encouraging sign that progress in key areas is possible. The agreement they reached last September in New York demonstrates the willingness of these key countries to collaborate regarding their policy intentions in order to foster increased and more balanced growth and to ensure that exchange rates more fully reflect underlying economic fundamentals.

Since September, the exchange markets have clearly recognized that better convergence of economic performance has taken place and is in prospect. For its part, the U.S. has moved to implement the policy actions set forth in that agreement. We have begun to put in place a program for reducing our budget deficit, made meaningful progress on tax reform, and continued to resist protectionist pressures firmly. Even if in some instances actions have not always been as fast and forceful as one might hope, the other participants in the G-5 are also moving to implement the New York agreement.

However, we recognize that work on improving the international monetary system must continue. We will patiently pursue our efforts to improve arrangements for international economic and financial cooperation.

The challenges now facing the Bank and Fund will make your work in explaining to the American public how the institutions operate even more important. And we are very grateful for the important service you are performing for your country. Thank you.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

Jan. 13, 1986

Contact: Bob Levine

(202) 566-2041

## PHOTO OP OF BAKER WITH ECUADORIAN PRESIDENT

Secretary of the Treasury James A. Baker III will have breakfast with Ecuadorian President Leon Febres-Cordero on Wednesday, Jan. 15th at the Ritz Carlton Hotel. There will be a photo opportunity at 8 am in the Presidential Suite, room 835. The hotel is located at 2100 Massachusetts Ave. NW.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

January 22, 1986

## RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted \$9,517 million of \$29,258 million of tenders received from the public for the 2-year notes, Series V-1988, auctioned today. The notes will be issued January 31, 1986, and mature January 31, 1988.

The interest rate on the notes will be 8-1/8%. The range of accepted competitive bids, and the corresponding prices at the 8-1/8% interest rate are as follows:

	<u>Yield</u>	<u>Price</u>
Low	8.16% <sup>1</sup> / <sub>8</sub>	99.937
High	8.17%	99.918
Average	8.17%	99.918

Tenders at the high yield were allotted 77%.

## TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>
Boston	\$ 95,145	\$ 40,145
New York	26,019,695	8,733,895
Philadelphia	21,745	20,745
Cleveland	199,395	59,395
Richmond	56,435	45,930
Atlanta	107,775	47,770
Chicago	1,308,895	157,895
St. Louis	144,025	121,025
Minneapolis	50,370	50,370
Kansas City	172,680	169,680
Dallas	28,835	22,835
San Francisco	1,047,275	42,275
Treasury	5,510	5,510
Totals	<u>\$29,257,780</u>	<u>\$9,517,470</u>

The \$9,517 million of accepted tenders includes \$947 million of noncompetitive tenders and \$8,570 million of competitive tenders from the public.

In addition to the \$9,517 million of tenders accepted in the auction process, \$305 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional \$596 million of tenders was also accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for maturing securities.

<sup>1</sup> Excepting 1 tender of \$10,000.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 10:00 A.M.  
JANUARY 23, 1986

CONTACT: BOB LEVINE  
566-2041

STATEMENT OF THE HONORABLE DAVID C. MULFORD  
ASSISTANT SECRETARY OF THE TREASURY  
FOR INTERNATIONAL AFFAIRS

BEFORE THE  
JOINT ECONOMIC COMMITTEE  
SUBCOMMITTEE ON ECONOMIC GOALS AND  
INTERGOVERNMENTAL POLICY  
THURSDAY, JANUARY 23, 1986

Mr. Chairman, Members of the Subcommittee:

I welcome this opportunity to discuss U.S. proposals for improving the international debt situation. Last fall, as you know, the United States undertook two major initiatives. The first led to the announcement on September 22 by the Group of Five industrial nations of a number of key macroeconomic policy measures designed to improve the prospects for sustained growth in the industrial nations, and hence to provide a stronger foundation for renewed growth in the developing world, as well.

The second initiative was the U.S. proposal for a "Program for Sustained Growth" for the debtor nations, which Secretary Baker outlined in October during the annual meetings of the IMF and the World Bank. Although the debtor nations have made major strides since 1982 in reducing their external imbalances, we were convinced that more still needs to be done to address domestic imbalances, to reverse capital flight, and to establish the essential domestic underpinnings for stronger growth. The sharp decline in net new lending by the commercial banks since 1982 also needed to be addressed, and a positive response developed to the heightened rhetoric and politicization of the debt issue by a number of debtor countries.

To respond to these problems, Secretary Baker proposed a three-point program which builds on the current case-by-case debt strategy and involves mutually reinforcing actions by the debtor nations, the international financial institutions and the commercial banks to improve the debtors' prospects for growth.

First and foremost, it is essential that the debtor nations adopt comprehensive macroeconomic and structural policies to promote growth and balance of payments adjustment, and to reduce inflation. Such programs should include:

- increased reliance on the private sector;
- more supply-side actions to mobilize domestic savings and foster efficient investment; and
- greater emphasis on market-opening measures to encourage foreign direct and portfolio investment, capital inflows, and trade.

Second, our proposal recognizes that the International Monetary Fund has played a central role in the implementation of the international debt strategy and emphasizes that this should continue. At the same time, it is also important for the World Bank and other multilateral development banks (MDBs) to play a stronger role to supplement that of the IMF.

In particular, we have called for increased and more effective structural and sector adjustment lending by the MDBs. We envisage a 50 percent increase over current World Bank and Inter-American Development Bank (IDB) disbursements to the principal debtor nations, to \$9 billion annually for 1986 through 1988, or a total of \$27 billion for the full period. This would be equivalent to an increase of 20 percent a year in overall exposure, after scheduled repayments, or \$20 billion in net new lending over the three years.

Third, we estimate a need for \$20 billion in net new lending by the commercial banks in support of growth-oriented policies by the debtor nations over the next three years. This is equivalent to a 2.5 to 3 percent annual increase in current bank exposure.

If each of the participants does its part, and the demand for quality lending by the World Bank increases, we indicated that we would also be prepared to look seriously at the timing and scope of a general capital increase for the World Bank.

### Implementation

Implementation of the debt strategy will be a long and complex process. It will not involve a single event marking the beginning of operations. Indeed, the process is already well underway. Nor does the U.S. debt initiative provide a rigid "plan" or "blueprint" for action which can be applied in full to each of the principal debtor nations. Implementation will be on a case-by-case basis with the initiative providing a framework for cooperative action to support the debtor nations'

own efforts to improve their growth prospects. This will depend on the individual situation in each debtor country, and each country's decision to implement the additional growth-oriented measures which are needed to supplement adjustment efforts already underway.

It is, therefore, inappropriate to look for "test cases" of adherence to the "Baker plan", as an example of what we would expect all of the debtor countries to undertake. No single model will fit the diverse situations of these countries. Some are already performing well; others have undertaken some adjustment measures but have made only limited progress overall or have recently experienced major setbacks; and still other countries are just beginning to undertake the necessary reforms.

Within these three broad groupings, it is clear that a few countries will need to draw on all of the elements of the new initiative. I would include Argentina and Mexico in this group. Mexico is now in the process of negotiating a new program with the support of the IMF, while Argentina continues to work closely with the IMF under its existing program. In both cases, we believe it is important that structural measures be given increased attention in the context of IMF programs. These countries will also be developing structural policy measures in the context of sector loans with the World Bank. Both will also need major commercial bank financing packages in 1986. Completion of these complex negotiations will take a while and should not be expected overnight.

This is particularly the case for those countries that need to use all of the elements involved in the initiative. These negotiations will also have to sort out the relationship between the IMF and World Bank programs and any commercial bank financing, to be worked out on a case-by-case basis, to assure that all three elements are moving together in support of growth-oriented policy reforms within the debtor countries. This will require closer cooperation between the international financial institutions in assessing the debtor countries' economic policies and financial needs and supportive financing by the commercial banks.

A second group of countries may only need to exploit a part of the initiative at this point.

Ecuador, for instance, provides an excellent example of a country that is already adopting the sound economic policies that are fundamental to the approach we have proposed. It has an IMF program in effect which is on target. It has recently negotiated commercial bank financing and debt rescheduling packages. It has already had considerable success in implementing policies which will help to increase the incentives for domestic savings and investment, to open up markets, and to privatize government-owned enterprises in order to improve economic efficiency and the stimulus to growth. The sector adjustment loan which Ecuador signed last week with the World Bank extends this effort further,

and additional sector loans are expected to be negotiated in the future, as well. Ecuador clearly aspires in the next phase to return to a voluntary lending status, which would be a marked sign of success.

Other debtor countries are at various stages along this policy/financial support continuum. Some, such as Colombia, are already well advanced in policy implementation. Others, such as the Ivory Coast and Uruguay, similarly have IMF programs and recent bank financing and debt rescheduling packages, and are in the process of negotiating additional structural adjustment measures with the World Bank.

Brazil faces yet a different situation. It is currently enjoying high growth and a strong external position. It will, however, have to take firm measures in order to sustain solid growth and reduce inflation. For the time being, Brazil has indicated that it sees no need to negotiate a formal IMF program. This poses problems for any rescheduling of official credits within the Paris Club, which requires adherence to an IMF standby program. While this issue is being sorted out, any additional voluntary financing by the commercial banks will depend on their assessment of Brazil's overall creditworthiness, based in part on the soundness of its own economic program.

Finally, Peru has chosen quite a different route for the time being -- unilaterally imposing a limit on its debt service payments as a percentage share of its total export earnings. Unless Peru adopts a more constructive approach, its unilateral actions will be counterproductive. More recently, Nigeria has charted a similar course. The end result, in each case, unless a more constructive approach is adopted, is likely to be a reduction in their access to badly needed external finance in the period ahead.

I mention these examples to demonstrate the wide divergence of economic situations and attitudes among the debtor nations. Most are already participating in the cooperative approach we have outlined and the question is how effective they will be in exploiting these new opportunities and adjusting their economies. For these countries, it isn't a matter of formally "embracing" the Baker plan in order for it to be implemented -- but of undertaking the necessary domestic reforms to unlock the maximum potential of their economies.

#### Role of the Financial Institutions

The response to our proposal by the international financial institutions and the commercial banking community has been very positive and encouraging. We have received broad statements of support from the Managing Director of the International Monetary Fund, the President of the World Bank, and the President of the Inter-American Development Bank.

U.S. banks accounting for 95 percent of U.S. commercial bank exposure in the principal debtor countries have pledged their support, as have national bank groups and key individual banks in all the major creditor countries.

What happens next?

To fulfill their part of this cooperative strategy, it will be important for the international financial institutions to enact reforms in their own procedures to increase the emphasis on structural adjustment measures and to phase disbursement under agreed programs so that they can monitor performance in the debtor countries to assure that the changes are being implemented.

We expect to see a growing stream of policy-based structural and sectoral adjustment loans from the World Bank and a strengthened emphasis on privatization, open markets, and increased savings and investment. The development of capital and equity markets in developing countries, which the World Bank, IFC, and Inter-American Development Bank are already discussing with the banking community, will be important, as will the potential for debt/equity swaps as part of the privatization process.

Public enterprises have been a major drain on public finances and a significant contributor to budget deficits in recent years. It is important to reverse this drain on national resources and to facilitate a strong and growing private sector as one element of the necessary structural reforms.

Stronger and more open domestic financial markets, tax reform, and improvement of the environment for investment can also enhance domestic savings and investment as a stimulus to growth. Trade liberalization and the rationalization of import regimes would also benefit both the export sector and the economy as a whole.

As a practical matter, it is unrealistic to call upon the support of voluntary lending from abroad, whether public or private, when domestic funds are moving in the other direction. Capital flight must be reversed if there is to be any real prospect of additional funding, whether debt or equity.

These are the kinds of reforms that the World Bank and the IMF need to encourage within their lending programs. We will also be working closely with the IDB to encourage necessary procedural and policy reforms to support the U.S. initiative.

Finally, the commercial banking community will need to devise its own mechanisms for implementing its commitment to increase net lending in support of growth-oriented economic programs in the debtor nations. A number of ideas are now under discussion. For our part, however, we have no intention of providing government guarantees for this purpose. We firmly believe that this approach provides a means for improving the quality of outstanding commercial



bank loans and is therefore strongly in the banks' own interest in those countries that are undertaking sound, growth-oriented adjustment.

### Conclusion

Are the amounts we have proposed for MDB and commercial bank lending sufficient for those willing to adopt the necessary domestic reforms, in light of the recent deterioration in the Mexican situation? We think so. Recent global economic developments have not significantly changed the assumptions upon which our estimates for the 15 major debtors were based. These included an average OECD growth rate of approximately 3 percent and the attainment of a 5 percent growth rate during this period for the participating debtor nations.

Interest rates, in fact, have declined, reducing annual debt service requirements for these countries by as much as \$7 billion since the beginning of 1985. Declining oil prices, on the other hand, have somewhat improved the financial picture of some countries while worsening it for others. On balance, the overall situation has improved since last summer.

Looking ahead, a significant decline in oil prices would clearly be beneficial for the developing countries as a whole. However, a precipitous decline would cause obvious adjustment difficulties for those countries dependent on oil exports. We will need to follow this closely. The "Program for Sustained Growth" is flexible and adaptable, designed to deal with distributional problems of this kind. However, it is clear already that countries such as Mexico and Nigeria will face increased financing requirements in the near future.

While our proposal includes substantial sums of new money to assist the debtor nations in making the transition to sustained growth, no amount of financing will be adequate unless these countries implement the economic measures which are essential to establish the foundation for growth. Inflation, which robs economies of the real benefits of growth, must be brought under control. Steps must be taken to help mobilize domestic savings and investment, to reduce the burden of government expenditures, to enhance competitiveness and efficiency, and to tap the potential benefits of foreign investment and trade. These alone can provide the strong domestic economic foundation essential for improved growth.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

January 27, 1986

## Gerald Murphy Appointed Fiscal Assistant Secretary of the Treasury

Secretary of the Treasury James A. Baker, III has appointed Gerald Murphy as the Fiscal Assistant Secretary of the Treasury.

As Fiscal Assistant Secretary, Mr. Murphy will oversee the Treasury Department's management of the U.S. Government's financial operations, cash management for the U.S. Government, raising money to finance government debt, directing the performance of the fiscal agency functions of the Federal Reserve Banks, and handling the investments of the multi-billion dollar trust and other accounts of the U.S. Government. Mr. Murphy reports to the Secretary and Deputy Secretary through the Under Secretary for Finance.

Mr. Murphy began a career of Federal Service when he entered the Department of the Navy in 1957. He joined the Department of the Treasury in 1959 and has served in a variety of managerial positions, including Deputy Commissioner of the Financial Management Service. Since 1979, he has been Deputy Fiscal Assistant Secretary.

Mr. Murphy is a Certified Public Accountant. He is a member of the American Institute of Certified Public Accountants, and past National President of the Association of Government Accountants. He served six years as a member of the National Council on Government Accounting, and presently serves on the Governmental Accounting Standards Advisory Council.

He has received Treasury's Meritorious Service Award, the Secretary's Honor Award, the Benjamin Franklin University Distinguished Alumni Award, and AGA's Robert W. King Memorial Award.

Mr. Murphy graduated from Benjamin Franklin University, Washington, D.C., with bachelor's and master's degrees in Commercial Science.

# # #

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR IMMEDIATE RELEASE

January 27, 1986

## RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for \$7,212 million of 13-week bills and for \$7,205 million of 26-week bills, both to be issued on January 30, 1986, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills			:	26-week bills		
	maturing May 1, 1986			:	maturing July 31, 1986		
	Discount	Investment		:	Discount	Investment	
	Rate	Rate 1/	Price	:	Rate	Rate 1/	Price
Low	6.90%	7.12%	98.256	:	7.02%	7.38%	96.451
High	6.92%	7.14%	98.251	:	7.03%	7.39%	96.446
Average	6.92%	7.14%	98.251	:	7.03%	7.39%	96.446

Tenders at the high discount rate for the 13-week bills were allotted 95%.  
Tenders at the high discount rate for the 26-week bills were allotted 80%.

## TENDERS RECEIVED AND ACCEPTED (In Thousands)

<u>Location</u>	<u>Received</u>	<u>Accepted</u>	:	<u>Received</u>	<u>Accepted</u>
Boston	\$ 36,005	\$ 36,005	:	\$ 34,830	\$ 34,830
New York	18,466,080	6,248,335	:	19,461,190	6,119,915
Philadelphia	25,375	25,375	:	25,070	25,070
Cleveland	41,020	41,020	:	28,685	28,685
Richmond	42,870	42,870	:	77,740	54,840
Atlanta	69,830	50,865	:	100,445	52,445
Chicago	1,452,835	170,085	:	1,789,420	276,020
St. Louis	92,195	52,170	:	81,475	41,475
Minneapolis	39,745	14,745	:	37,435	12,435
Kansas City	56,080	56,080	:	61,125	61,125
Dallas	42,825	37,575	:	31,925	21,925
San Francisco	1,355,385	96,885	:	1,122,585	115,145
Treasury	340,095	340,095	:	361,275	361,275
<b>TOTALS</b>	<b>\$22,060,340</b>	<b>\$7,212,105</b>	:	<b>\$23,213,200</b>	<b>\$7,205,185</b>
<u>Type</u>			:		
Competitive	\$19,151,025	\$4,302,790	:	\$19,759,875	\$3,751,860
Noncompetitive	1,165,955	1,165,955	:	949,625	949,625
Subtotal, Public	\$20,316,980	\$5,468,745	:	\$20,709,500	\$4,701,485
Federal Reserve	1,518,460	1,518,460	:	1,475,000	1,475,000
Foreign Official Institutions	224,900	224,900	:	1,028,700	1,028,700
<b>TOTALS</b>	<b>\$22,060,340</b>	<b>\$7,212,105</b>	:	<b>\$23,213,200</b>	<b>\$7,205,185</b>

1/ Equivalent coupon-issue yield.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE AT 4:00 P.M.

January 28, 1986

## TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately \$14,000 million, to be issued February 6, 1986. This offering will result in a paydown for the Treasury of about \$525 million, as the maturing bills are outstanding in the amount of \$14,525 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239, prior to 1:00 p.m., Eastern Standard time, Monday, February 3, 1986. The two series offered are as follows:

91-day bills (to maturity date) for approximately \$7,000 million, representing an additional amount of bills dated November 7, 1985, and to mature May 8, 1986 (CUSIP No. 912794 KE 3), currently outstanding in the amount of \$7,239 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately \$7,000 million, representing an additional amount of bills dated August 8, 1985, and to mature August 7, 1986 (CUSIP No. 912794 KP 8), currently outstanding in the amount of \$8,778 million, the additional and original bills to be freely interchangeable.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Both series of bills will be issued entirely in book-entry form in a minimum amount of \$10,000 and in any higher \$5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

The bills will be issued for cash and in exchange for Treasury bills maturing February 6, 1986. Tenders from Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities will be accepted at the weighted average bank discount rates of accepted competitive tenders. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them. Federal Reserve Banks currently hold \$1,075 million as agents for foreign and international monetary authorities, and \$3,136 million for their own account. Tenders for bills to be maintained on the book-entry records of the Department of the Treasury should be submitted on Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series).

Each tender must state the par amount of bills bid for, which must be a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. Competitive tenders must also show the yield desired, expressed on a bank discount rate basis with two decimals, e.g., 7.15%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, shall not submit noncompetitive tenders totaling more than \$1,000,000.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of \$200 million. This information should reflect positions held as of 12:30 p.m. Eastern time on the day of the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Dealers, who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds \$200 million.

A noncompetitive bidder may not have entered into an agreement, nor make an agreement to purchase or sell or otherwise dispose of any noncompetitive awards of this issue being auctioned prior to the designated closing time for receipt of tenders.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and yield range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$1,000,000 or less without stated yield from any one bidder will be accepted in full at the weighted average bank discount rate (in two decimals) of accepted competitive bids for the respective issues. The calculation of purchase prices for accepted bids will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on the issue date, in cash or other immediately-available funds or in Treasury bills maturing on that date. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills. In addition, Treasury Tax and Loan Note Option Depositories may make payment for allotments of bills for their own accounts and for account of customers by credit to their Treasury Tax and Loan Note Accounts on the settlement date.

In general, if a bill is purchased at issue after July 18, 1984, and held to maturity, the amount of discount is reportable as ordinary income in the Federal income tax return of the owner at the time of redemption. Accrual-basis taxpayers, banks, and other persons designated in section 1281 of the Internal Revenue Code must include in income the portion of the discount for the period during the taxable year such holder held the bill. If the bill is sold or otherwise disposed of before maturity, the portion of the gain equal to the accrued discount will be treated as ordinary income. Any excess may be treated as capital gain.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, Treasury's single bidder guidelines, and this notice prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars, guidelines, and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

# TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE

January 29, 1986

## TREASURY FEBRUARY QUARTERLY FINANCING

The Treasury will raise about \$13,200 million of new cash and refund \$9,818 million of securities maturing February 15, 1986, through domestic issues of \$9,000 million of 3-year notes, \$7,000 million of 10-year notes, and \$7,000 million of 30-year bonds; in addition, the Treasury will raise up to \$1,000 million by issuing 10-year foreign-targeted notes. The \$9,818 million of maturing securities are those held by the public, including \$499 million held, as of today, by Federal Reserve Banks as agents for foreign and international monetary authorities.

The 10-year domestic note and 30-year bond being offered today will be eligible for exchange in the STRIPS program and, accordingly, may be divided into their separate Interest and Principal Components and maintained on the book-entry records of the Federal Reserve Banks and Branches. Once a security is in the STRIPS form, the components may be maintained and transferred in multiples of \$1,000. Financial institutions should consult their local Federal Reserve Bank or Branch for procedures for requesting securities in STRIPS form.

The 3-year notes, 10-year domestic notes, and 30-year bonds totaling \$23,000 million are being offered to the public, and any amounts tendered by Federal Reserve Banks as agents for foreign and international monetary authorities will be added to that amount. Tenders for such accounts will be accepted at the average prices of accepted competitive tenders. Accrued interest will be payable by investors on the 10-year domestic notes, the 10-year foreign-targeted notes, and the 30-year bonds.

The foreign-targeted notes will be sold only under competitive bidding, and only to foreign institutions, to foreign branches of United States financial institutions, to central banks or monetary authorities of foreign governments, or to certain public international organizations of which the United States is a member. A maximum of \$1,000 million of bids will be accepted, and if less than \$500 million of acceptable bids is received, none will be accepted. A bidder must certify that, as of the date of issuance, the notes are not being acquired for, or for offer to resell to, a United States person. In any event, the issue may not be sold to United States persons for 45 days (until March 23, 1986). United States persons who purchase the notes from March 23, 1986, onwards must meet U. S. tax requirements. In addition, such notes may be exchanged for the companion domestic notes in accordance with the terms of the circular.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold \$1,486 million of the maturing securities that may be refunded by issuing additional amounts of the new securities at the average prices of accepted competitive tenders.

Details about each of the new securities are given in the attached "highlights" of the offering and in the official offering circulars. Potential bidders for the foreign-targeted notes should obtain copies of the Offering Circular from the Federal Reserve Bank of New York, Securities Department, Room 835, or at the Treasury Department, Public Affairs, Room 2315, Washington, D. C. Circulars for securities with the STRIPS feature, which include CUSIP numbers for their components, can be obtained by contacting the nearest Federal Reserve Bank or Branch.

o0o

(Over)

HIGHLIGHTS OF TREASURY OFFERINGS OF 3-YEAR NOTES, DOMESTIC AND FOREIGN-TARGETED 10-YEAR NOTES, AND 30-YEAR BONDS

January 29, 1986

Amount offered.....\$9,000 million	\$7,000 million	Up to \$1,000 million	\$7,000 million
Eligible bidders.....The Public	The Public	See Sections 2.1 and 2.19 of the Offering Circular.	The Public
<u>Description of Security:</u>			
Term and type of security.....3-year notes	10-year notes	10-year foreign-targeted notes	30-year bonds
Series and CUSIP designation..Q-1989 (CUSIP No. 912827 TE 2)	A-1996 (CUSIP No. 912827 TF 9)	B-1996 (CUSIP No. 912827 TG 7)	Bonds of 2016 (CUSIP No. 912810 DV 7)
CUSIP Numbers for STRIPS components.....Not applicable	Listed in Attachment A of Offering Circular	Not applicable	Listed in Attachment A of Offering Circular
Issue date.....February 18, 1986	February 18, 1986 (to be dated February 15, 1986)	February 18, 1986 (to be dated February 15, 1986)	February 18, 1986 (to be dated February 15, 1986)
Maturity date.....February 15, 1989	February 15, 1996	February 15, 1996	February 15, 2016
Interest rate.....To be determined based on the average of accepted bids	To be determined based on the average of accepted bids	Same as the rate established in the companion domestic auction	To be determined based on the average of accepted bids
Investment yield.....To be determined at auction	To be determined at auction	To be determined at auction	To be determined at auction
Premium or discount.....To be determined after auction	To be determined after auction	To be determined after auction	To be determined after auction
Interest payment dates.....August 15 and February 15	August 15 and February 15	February 15 (first interest payment February 15, 1987)	August 15 and February 15
Minimum denomination available.....\$5,000	\$1,000	\$1,000	\$1,000
Amount required for STRIPS....Not applicable	To be determined after auction	Not applicable	To be determined after auction
<u>Terms of Sale:</u>			
Method of sale.....Yield auction	Yield auction	Yield auction	Yield auction
Competitive tenders.....Must be expressed as an annual yield, with two decimals, e.g., 7.10%, based on a semi-annual interest payment	Must be expressed as an annual yield, with two decimals, e.g., 7.10%, based on a semi-annual interest payment	Must be submitted to the Federal Reserve Bank (FRB) New York and expressed as an annual yield, with two decimals, e.g., 7.10%, based on an annual interest payment	Must be expressed as an annual yield with two decimals, e.g., 7.10%, based on a semiannual interest payment
Noncompetitive tenders.....Accepted in full at the average price up to \$1,000,000	Accepted in full at the average price up to \$1,000,000	Not permitted	Accepted in full at the average price up to \$1,000,000
Minimum tender.....\$5,000	\$1,000	Aggregate amount at lowest yield bid for must be at least \$50,000,000. See Section 6 of Offering Circular.	\$1,000
Accrued interest payable by investor.....None	To be determined after auction	To be determined after auction	To be determined after auction
<u>Payment Terms:</u>			
Designation of paying institution.....No provision	No provision	See Section 6 of Offering Circular.	No provision
Payment by non-institutional investors.....Full payment to be submitted with tender	Full payment to be submitted with tender	Not applicable	Full payment to be submitted with tender
Guarantee by designated institution.....Acceptable	Acceptable	See Section 6 of Offering Circular.	Acceptable
Payment through Treasury Tax and Loan (TT&L) Note Accounts.....Acceptable for TT&L Note Option Depositories	Acceptable for TT&L Note Option Depositories	No provision	Acceptable for TT&L Note Option Depositories
<u>Key Dates:</u>			
Receipt of tenders.....Tuesday, February 4, 1986, prior to 1:00 p.m., EST	Wednesday, February 5, 1986, prior to 1:00 p.m., EST	Wednesday, February 5, 1986, prior to 1:00 p.m., EST, at FRB New York	Thursday, February 6, 1986, prior to 1:00 p.m., EST
<u>Settlement:</u>			
a) Funds immediately available to the Treasury..Tuesday, February 18, 1986	Tuesday, February 18, 1986	Tuesday, February 18, 1986, no later than 9:00 a.m., EST, at FRB New York	Tuesday, February 18, 1986
b) Readily-collectible check..Thursday, February 13, 1986	Thursday, February 13, 1986	Not applicable	Thursday, February 13, 1986





U.S. TREASURY LIBRARY



1 0031643