U.S. Department of the Treasury

PRESS RELEASES

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 202-622-2960
FFB 202-622-2450

For Immediate Release

November 2, 1992

FEDERAL FINANCING BANK ACTIVITY

Charles D. Haworth, Secretary, Federal Financing Bank, announced the following activity for the month of September 1992.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $164.4 billion on September 30, 1992, posting a decrease of $9,580.7 million from the level on August 31, 1992. This net change was the result of decreases in holdings of agency debt of $9,428.5 million, in holdings of agency assets of $30.3 million, and in holdings of guaranteed loans of $122.0 million. FFB made 26 disbursements in September.

During the fiscal year 1992, FFB holdings of obligations issued, sold or guaranteed by other Federal agencies posted a net decrease of $29,811.8 million from the level on September 30, 1991. This net change was the result of a decrease in holdings of agency debt of $21,161.7 million, in holdings of agency assets of $7,799.6 million, and in holdings of agency-guaranteed loans of $850.5 million.

Attached to this release are tables presenting FFB September loan activity and FFB holdings as of September 30, 1992.

NB-2050

FEDERAL FINANCING BANK
(in millions)

Program	September 30, 1992	August 31, 1992	Net Change 9/1/92-9/30/92	FY '92 Net Change 10/1/91-9/30/92
Agency Debt:				
Export-Import Bank	$ 7,692.5	$ 8,150.0	$ -457.6	$ -3,568.5
Federal Deposit Insurance Corporation	10,160.0	15,160.0	-5,000.0	1,864.0
NCUA-Central Liquidity Fund	0.0	0.0	0.0	-113.6
Resolution Trust Corporation	46,535.9	50,406.8	-3,870.9	-16,346.5
Tennessee Valley Authority	7,175.0	7,275.0	-100.0	-4,700.0
U.S. Postal Service	9,903.4	9,903.4	0.0	1,702.8
sub-total*	81,466.8	90,895.2	-9,428.5	-21,161.7
Agency Assets:				
Farmers Home Administration	42,979.0	43,009.0	-30.0	-7,715.0
DHHS-Health Maintenance Org.	55.2	55.2	0.0	-6.0
DHHS-Medical Facilities	64.3	64.3	0.0	-11.5
Rural Electrification Admin.-CBO	4,598.9	4,598.9	0.0	-65.0
Small Business Administration	4.1	4.4	-0.3	-2.1
sub-total*	47,701.5	47,731.8	-30.3	-7,799.6
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	4,344.3	4,387.0	-42.7	-255.7
DEd.-Student Loan Marketing Assn.	4,820.0	4,820.0	0.0	-30.0
DEPCO-Rhode Island	125.0	125.0	0.0	125.0
DHUD-Community Dev. Block Grant	174.4	176.9	-2.5	-30.1
DHUD-Public Housing Notes +	1,853.2	1,853.2	0.0	-50.2
General Services Administration +	776.9	759.1	17.8	116.3
DOI-Guam Power Authority	27.0	27.7	-0.7	-1.4
DOI-Virgin Islands	23.7	23.7	0.0	-0.8
NASA-Space Communications Co. +	0.0	0.0	0.0	-32.7
DON-Ship Lease Financing	1,576.2	1,576.2	0.0	-48.3
Rural Electrification Administration	18,143.0	18,238.0	-95.0	-454.0
SBA-Small Business Investment Cos.	143.4	148.6	-5.2	-101.6
SBA-State/Local Development Cos.	633.7	636.9	-3.3	-54.6
TVA-Seven States Energy Corp.	2,416.8	2,407.1	9.7	-30.3
DOT-Section 511	19.1	19.2	-0.1	-2.2
DOT-WMATA	177.0	177.0	0.0	0.0
sub-total*	35,253.6	35,375.6	-122.0	-850.5
	=========	=========	========	=========
grand-total*	$ 164,421.9	$ 174,002.6	$ -9,580.7	$ -29,811.8

*figures may not total due to rounding
+does not include capitalized interest

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 2, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,808 million of 13-week bills to be issued November 5, 1992 and to mature February 4, 1993 were accepted today (CUSIP: 912794A53).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.03%	3.10%	99.234
High	3.05%	3.12%	99.229
Average	3.05%	3.12%	99.229

Tenders at the high discount rate were allotted 96%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	25,910	25,910
New York	28,710,720	10,472,520
Philadelphia	11,840	11,840
Cleveland	34,380	34,380
Richmond	48,375	43,175
Atlanta	35,680	35,400
Chicago	1,490,765	64,765
St. Louis	7,410	7,410
Minneapolis	10,055	10,055
Kansas City	23,070	23,070
Dallas	19,790	19,790
San Francisco	915,965	161,965
Treasury	897,780	897,780
TOTALS	$32,231,740	$11,808,060
Type		
Competitive	$27,258,865	$6,835,185
Noncompetitive	1,469,360	1,469,360
Subtotal, Public	$28,728,225	$8,304,545
Federal Reserve	2,767,215	2,767,215
Foreign Official Institutions	736,300	736,300
TOTALS	$32,231,740	$11,808,060

NB-2051

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 2, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,830 million of 26-week bills to be issued November 5, 1992 and to mature May 6, 1993 were accepted today (CUSIP: 912794C51).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.25%	3.35%	98.357
High	3.27%	3.37%	98.347
Average	3.27%	3.37%	98.347

$4,600,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 82%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	19,755	19,695
New York	28,581,560	10,689,720
Philadelphia	8,565	8,565
Cleveland	30,875	30,875
Richmond	47,585	47,585
Atlanta	27,130	21,130
Chicago	1,477,720	48,220
St. Louis	11,920	11,920
Minneapolis	9,675	9,675
Kansas City	24,680	24,680
Dallas	10,780	10,780
San Francisco	708,845	307,545
Treasury	599,120	599,120
TOTALS	$31,558,210	$11,829,510
Type		
Competitive	$27,394,965	$7,666,265
Noncompetitive	966,545	966,545
Subtotal, Public	$28,361,510	$8,632,810
Federal Reserve	2,700,000	2,700,000
Foreign Official Institutions	496,700	496,700
TOTALS	$31,558,210	$11,829,510

NB-2052

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE
November 3, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY NOVEMBER QUARTERLY FINANCING

The Treasury will raise about $13,900 million of new cash and refund $23,096 million of securities maturing November 15, 1992, by issuing $15,500 million of 3-year notes, $11,250 million of 9-3/4-year 6-3/8% notes, and $10,250 million of 30-year bonds. The $23,096 million of maturing securities are those held by the public, including $4,692 million held, as of today, by Federal Reserve Banks as agents for foreign and international monetary authorities.

The three issues totaling $37,000 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.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold $4,095 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.

<u>Treasury decided to reopen the 6-3/8% Treasury note maturing on August 15, 2002, in order to alleviate an acute, protracted shortage of this security.</u> If next week's auction of this note results in a price or prices below par, the discount will be treated for Federal income tax purposes as market discount, not as original issue discount. This Federal income tax treatment is provided for under Internal Revenue Notice No. 92-13, released March 25, 1992.

The 9-3/4-year note and 30-year bond being offered today will be eligible for the STRIPS program.

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

oOo

Attachment

NB-2053

TALKING POINTS
FOR THE
FINANCING PRESS CONFERENCE
November 3, 1992

Today, we are announcing the terms of the regular Treasury November midquarter refunding. I will also discuss Treasury financing requirements for the balance of the current calendar quarter and our estimated cash needs for the January-March 1993 quarter.

1. We are offering $37.0 billion of notes and bonds to refund $23.1 billion of privately held notes maturing on November 15 and to raise approximately $13.9 billion of cash.

The three securities are:

-- First, a 3-year note in the amount of $15.5 billion, maturing on November 15, 1995. This note is scheduled to be auctioned on a yield basis on Monday, November 9, 1992. The deadline for competitive tenders will be 12:00 p.m., Eastern Time. The deadline for competitive tenders in the bill auction to be held the same day will be the usual 1:00 p.m., Eastern Time. The minimum purchase amount in the 3-year note auction will be $5,000. Purchases may be made in any multiples of $5,000.

-- Second, a 9-3/4-year note in the amount of $11.25 billion, a reopening of the 6-3/8 percent note of August 15, 2002. This note is scheduled to be auctioned on a yield basis on Tuesday, November 10,

1992. The minimum purchase amount will be $1,000.

-- Third, a 30-year bond in the amount of $10.25 billion maturing on November 15, 2022. This bond is scheduled to be auctioned on a yield basis on Thursday, November 12, 1992. The minimum purchase amount will be $1,000. The 52-week bill auction that usually would be held on November 12 will be postponed to Tuesday, November 17 for settlement on Thursday, November 19.

2. We will accept noncompetitive tenders up to $5,000,000 for each of the note and bond auctions.

3. As announced on Friday, October 30, 1992, we estimate a net market borrowing need of $87 billion for the October-December quarter. The estimate assumes a $30 billion cash balance at the end of December.

Including this refunding, we will have raised $25.3 billion of the $87.0 billion in net market borrowing needed this quarter. This net borrowing was accomplished as follows:

- -- $4.1 billion of cash from the 7-year note that settled October 15;
- -- $2.9 billion of cash from the 2-year note that settled November 2;
- -- $11.1 billion of cash from the 5-year note that settled November 2;
- -- $1.2 billion of cash in the 52-week bills;
- -- paydowns totaling $7.9 billion in the sales of the regular

weekly bills, including the bills announced today; and

-- $13.9 billion of cash from the refunding issues announced today.

The $15 billion cash management bills that will be auctioned on November 5 and issued on November 6 will mature on December 17 and therefore do not affect the borrowing need for the quarter as a whole.

The $61.7 billion to be raised in the rest of the October-December quarter could be accomplished through sales of regular 13-, 26-, and 52-week bills, and 2-year and 5-year notes at the end of November and December. Cash management bills may be necessary in December to cover the low point in the cash balance.

4. We estimate Treasury net market borrowing needs to be in the range of $65 to $70 billion for the January-March 1993 quarter, assuming a $20 billion cash balance on March 31. The borrowing estimate for the January-March 1993 quarter assumes that Congress will not enact additional funding for thrift resolutions before early next year, which will prevent significant Resolution Trust Corporation spending during the period ending in March.

5. The Treasury decided to reopen the 6-3/8 percent Treasury note maturing on August 15, 2002 in order to alleviate an acute, protracted shortage of this security. If next week's auction of this note results in a price or prices below par, the

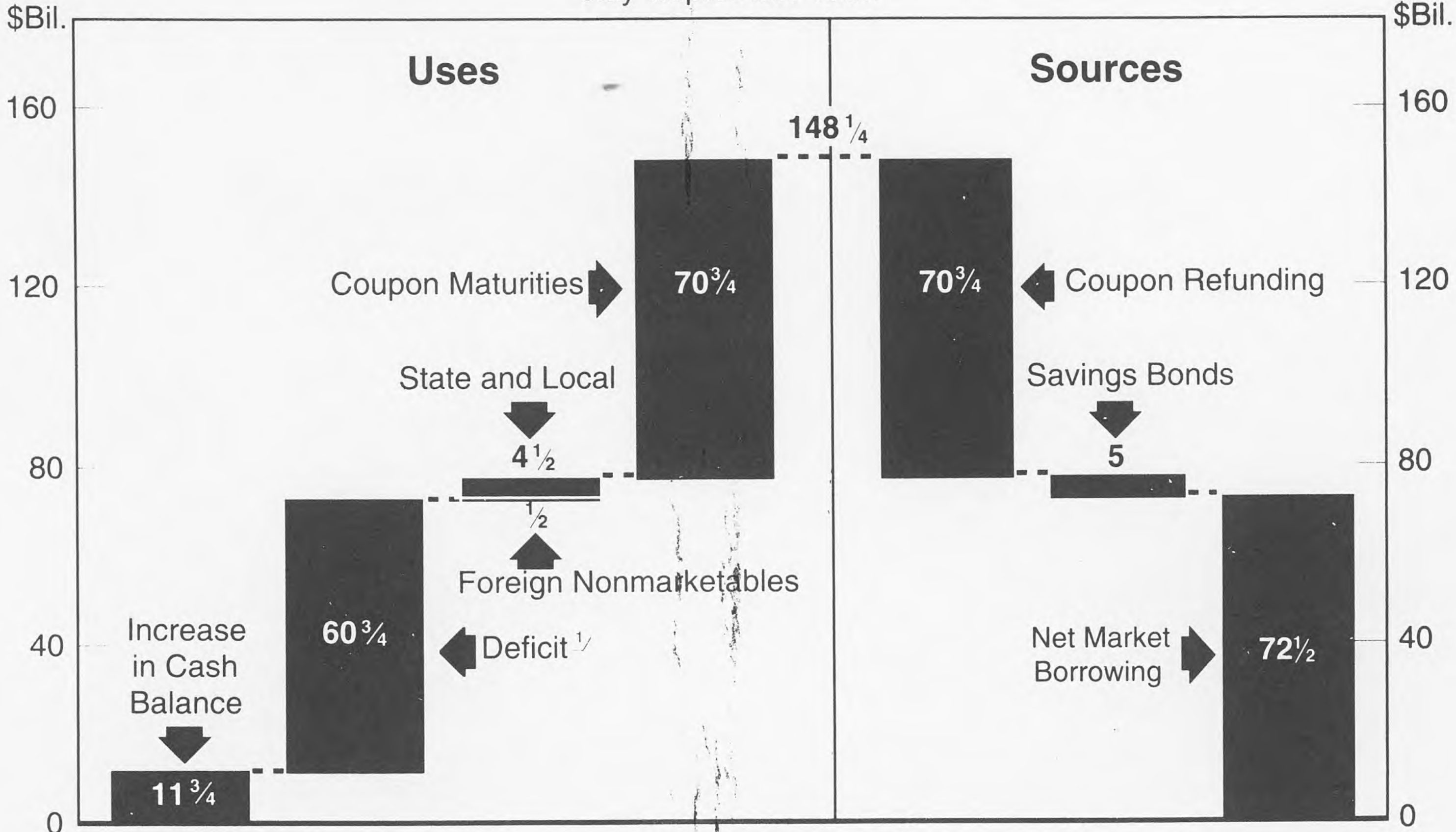
discount will be treated for Federal income tax purposes as market discount and not as original issue discount. This Federal income tax treatment is provided under Internal Revenue Service Notice No. 92-13, released on March 25, 1992.

6. The 10-year notes and 30-year bonds being announced today are eligible for conversion to STRIPS (Separate Trading of Registered Interest and Principal of Securities) and, accordingly, may be divided into separate interest and principal components.

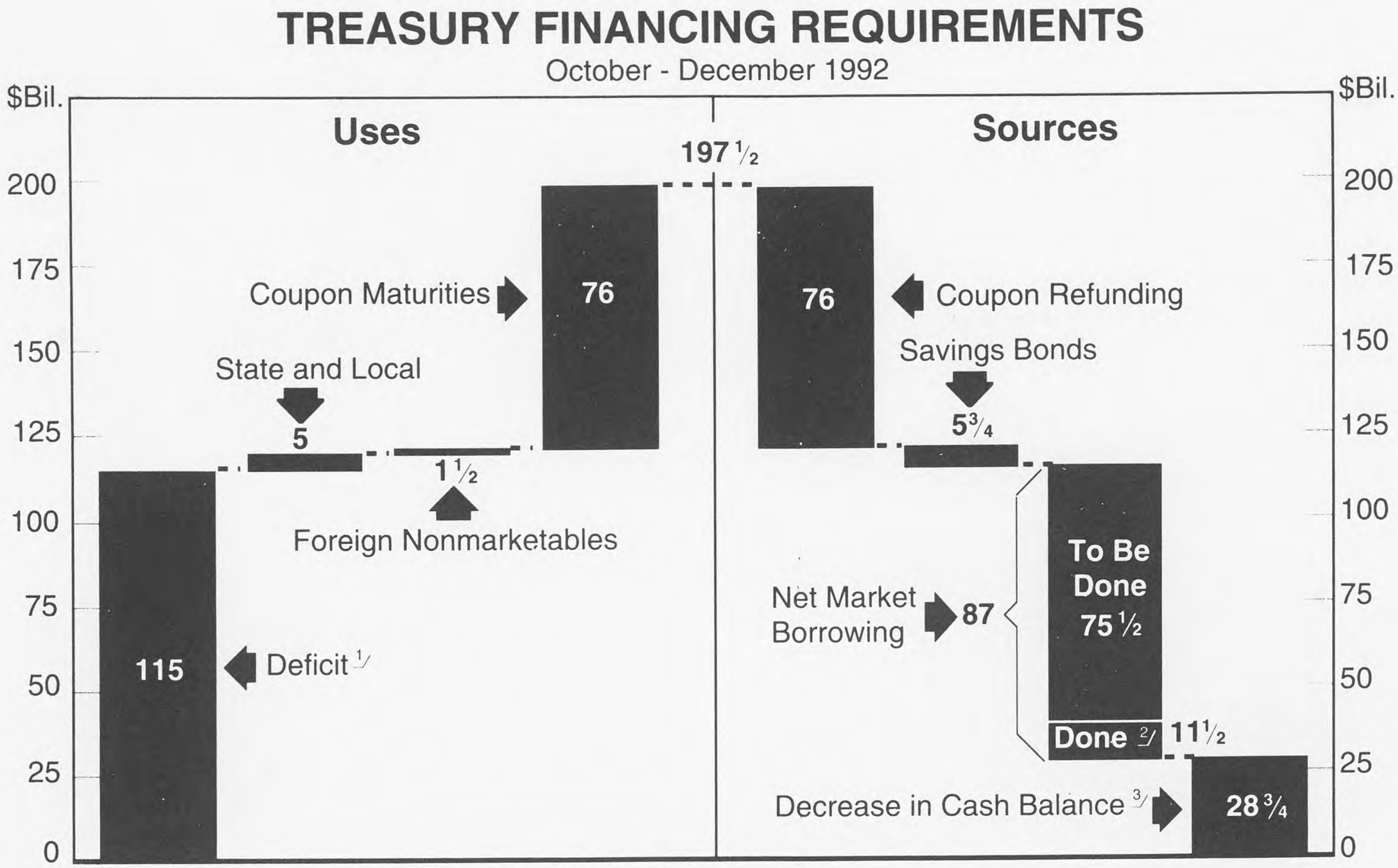
7. The February midquarter refunding press conference will be held on Wednesday, February 3, 1993.

TREASURY FINANCING REQUIREMENTS

July-September 1992



1/ Includes budget deficit, changes in accrued interest and checks outstanding and minor miscellaneous debt transactions.



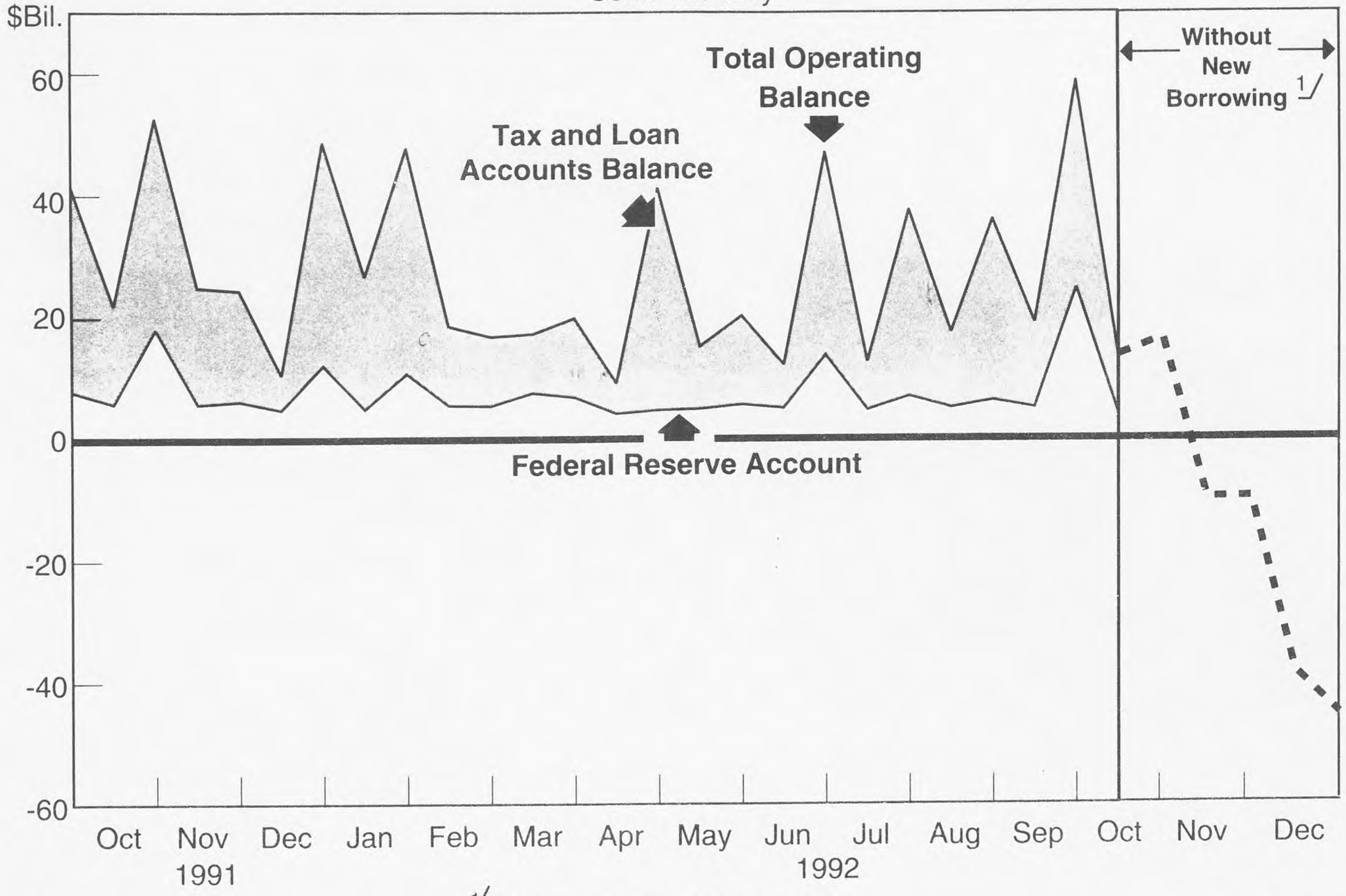
1/ Includes budget deficit, changes in accrued interest and checks outstanding and minor miscellaneous debt transactions.

2/ Issued or announced through October 30, 1992.

3/ Assumes a $30 billion cash balance December 31, 1992.

TREASURY OPERATING CASH BALANCE

Semi- Monthly



1/ Assumes refunding of maturing issues.

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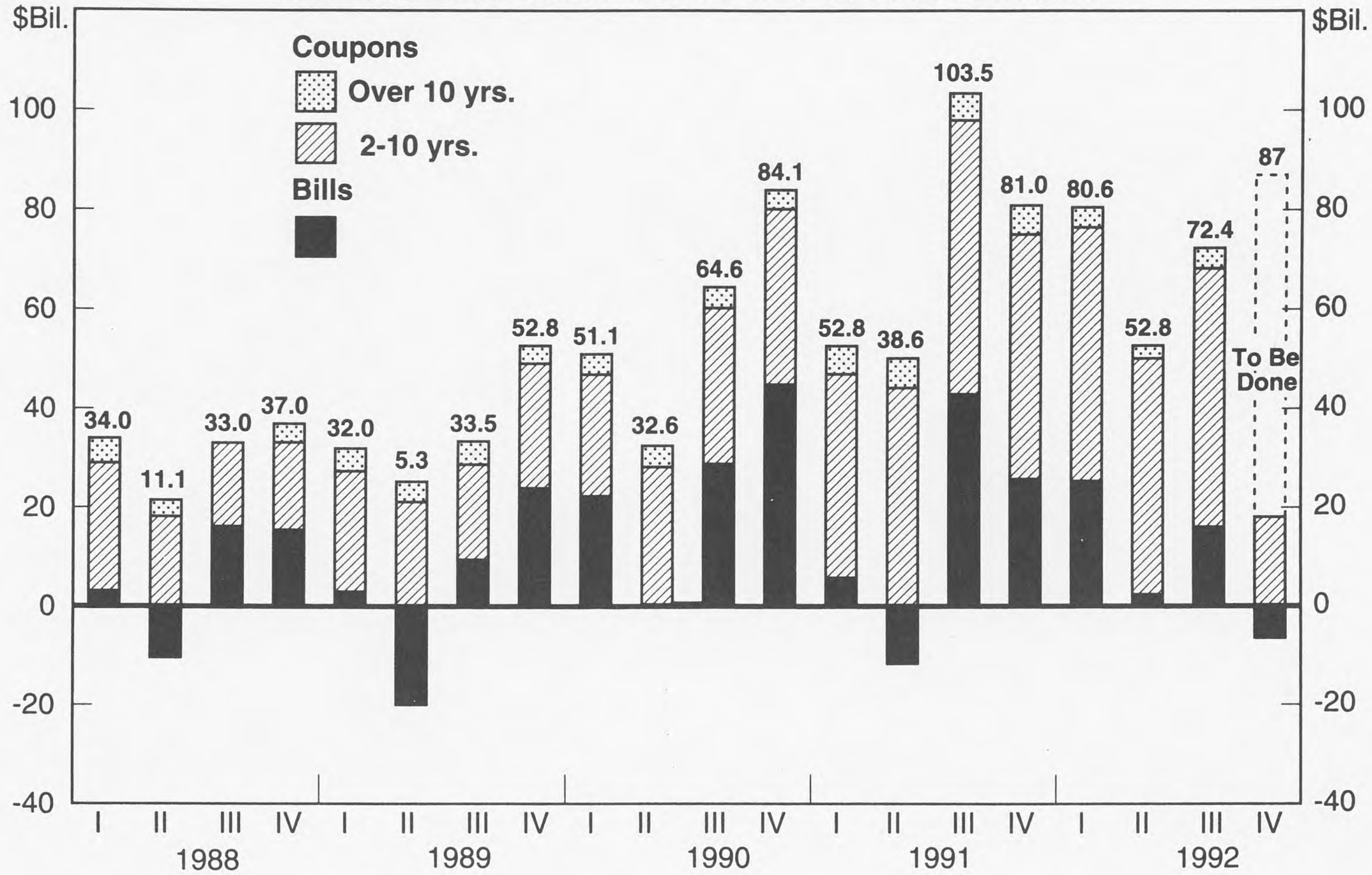
November 2, 1992-25

TREASURY NET MARKET BORROWING 1/



1/ Excludes Federal Reserve and Government Account Transactions.

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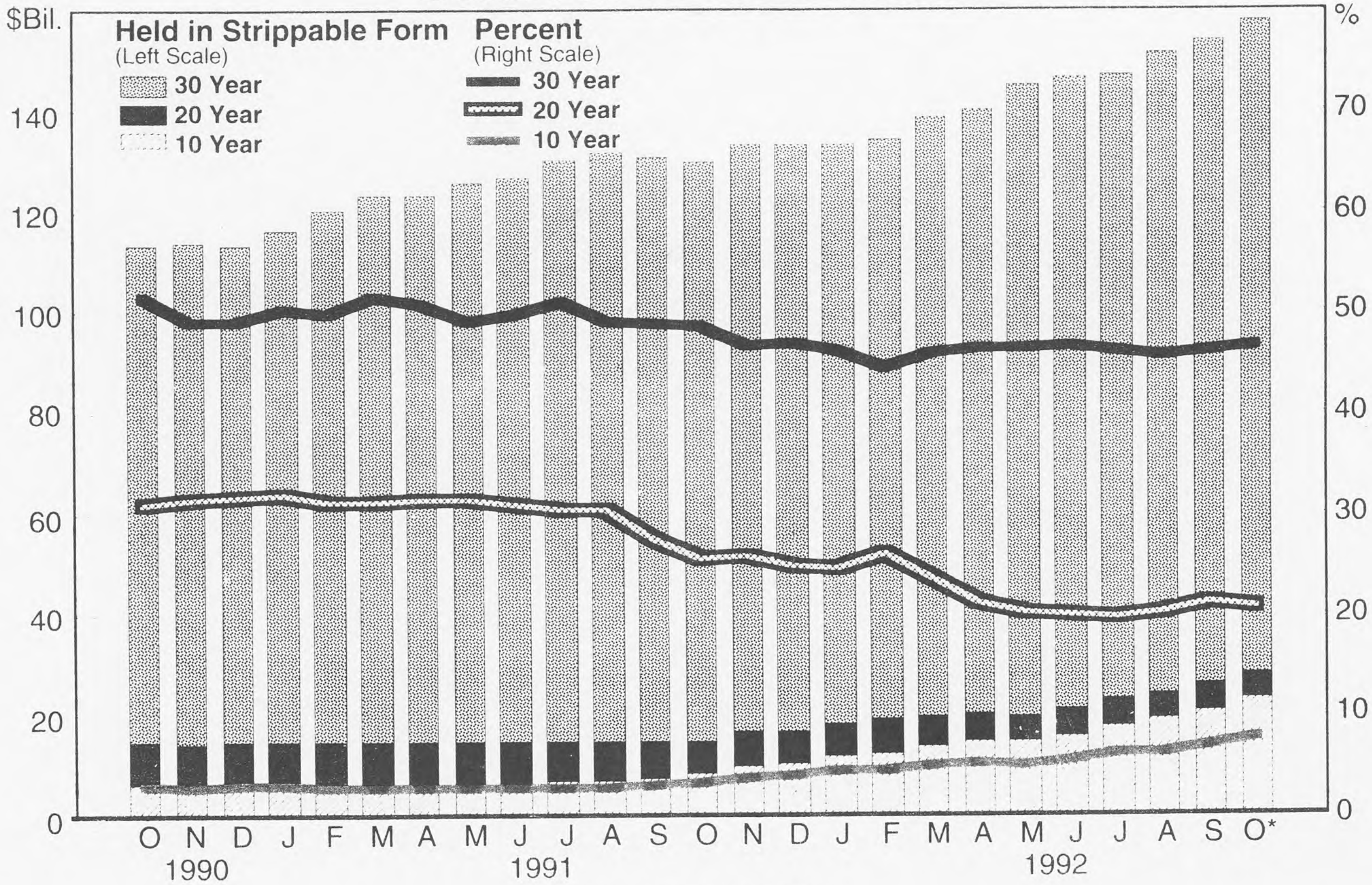
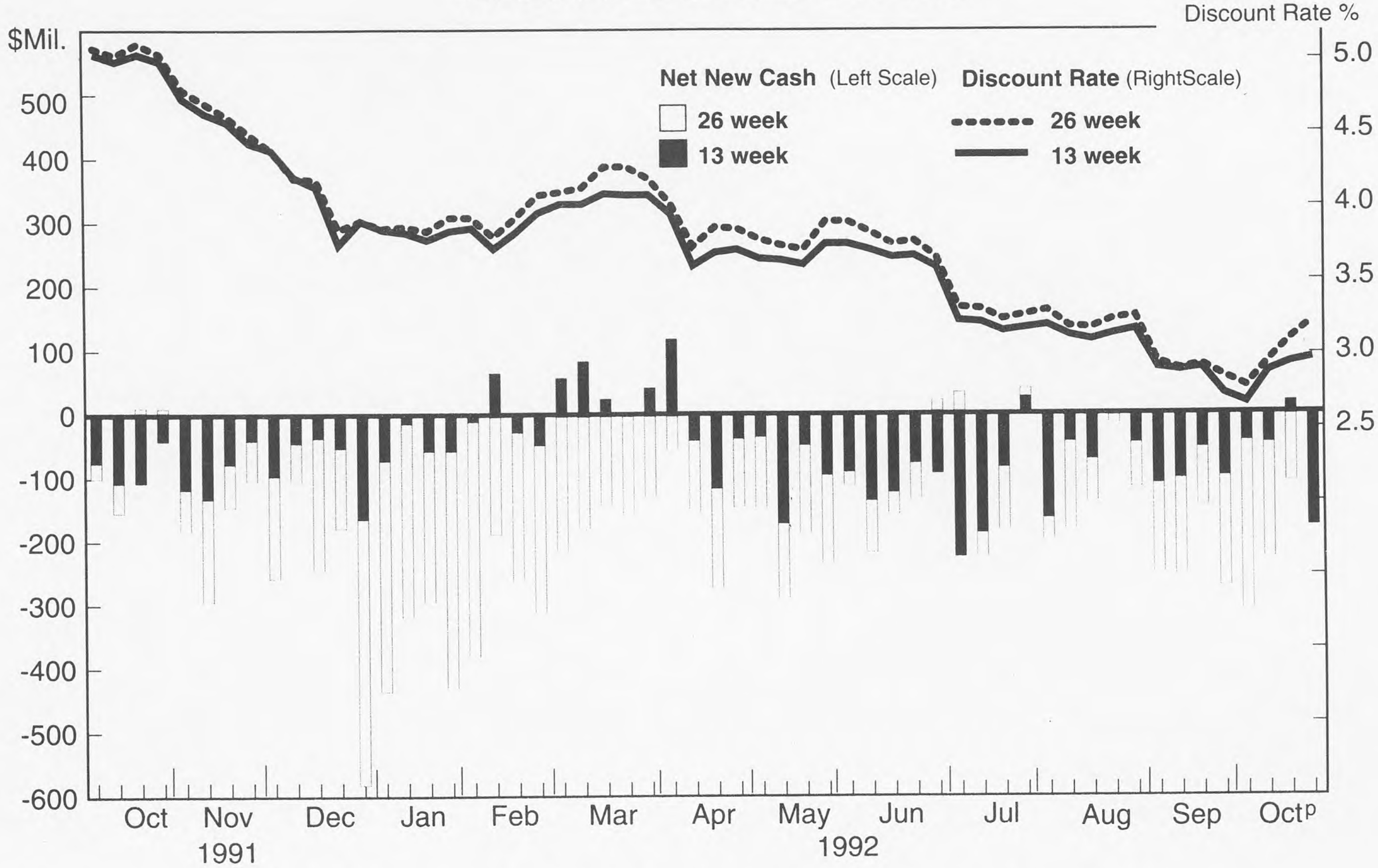
October 30,1992-5

NET STRIPS AS A PERCENT OF PRIVATELY HELD STRIPPABLE SECURITIES



*Through October 23, 1992.

NET NEW CASH FROM NONCOMPETITIVE TENDERS IN WEEKLY BILL AUCTIONS 1/



1/ Excludes noncompetitive tenders from foreign official accounts and the Federal Reserve account.
p Preliminary

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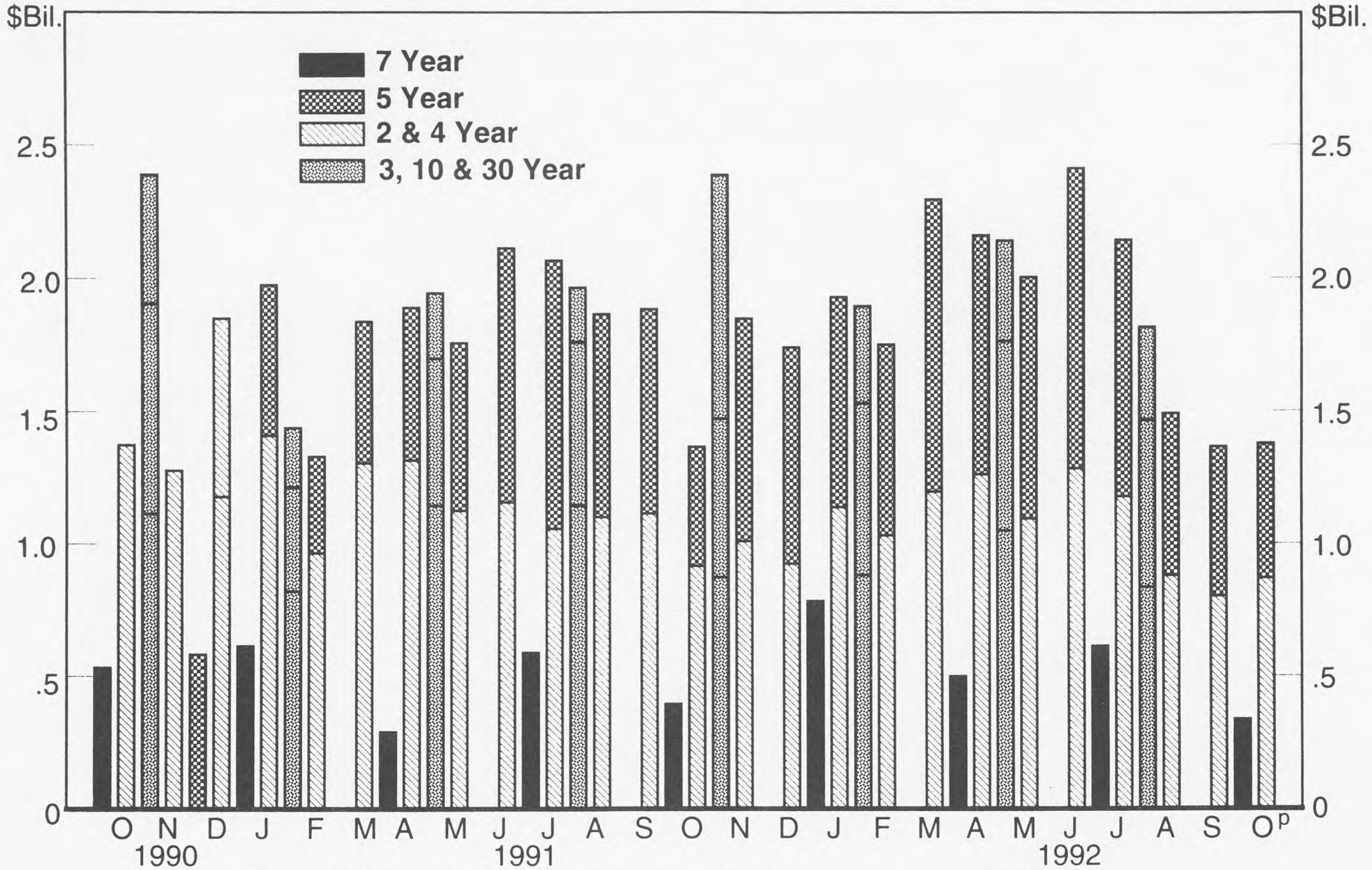
Office of Market Finance

NONCOMPETITIVE TENDERS IN TREASURY NOTES AND BONDS 1/



1/ Excludes foreign add-ons from noncompetitive tenders.

p Preliminary

Treasury increased the maximum noncompetitive award to any noncompetitive bidder to $5 million effective November 5, 1991.

Effective February 11, 1992 a noncompetitive bidder may not hold a position in WI trading, futures, or forward contracts, nor submit both competitive and noncompetitive bids for its own account.

Department of the Treasury
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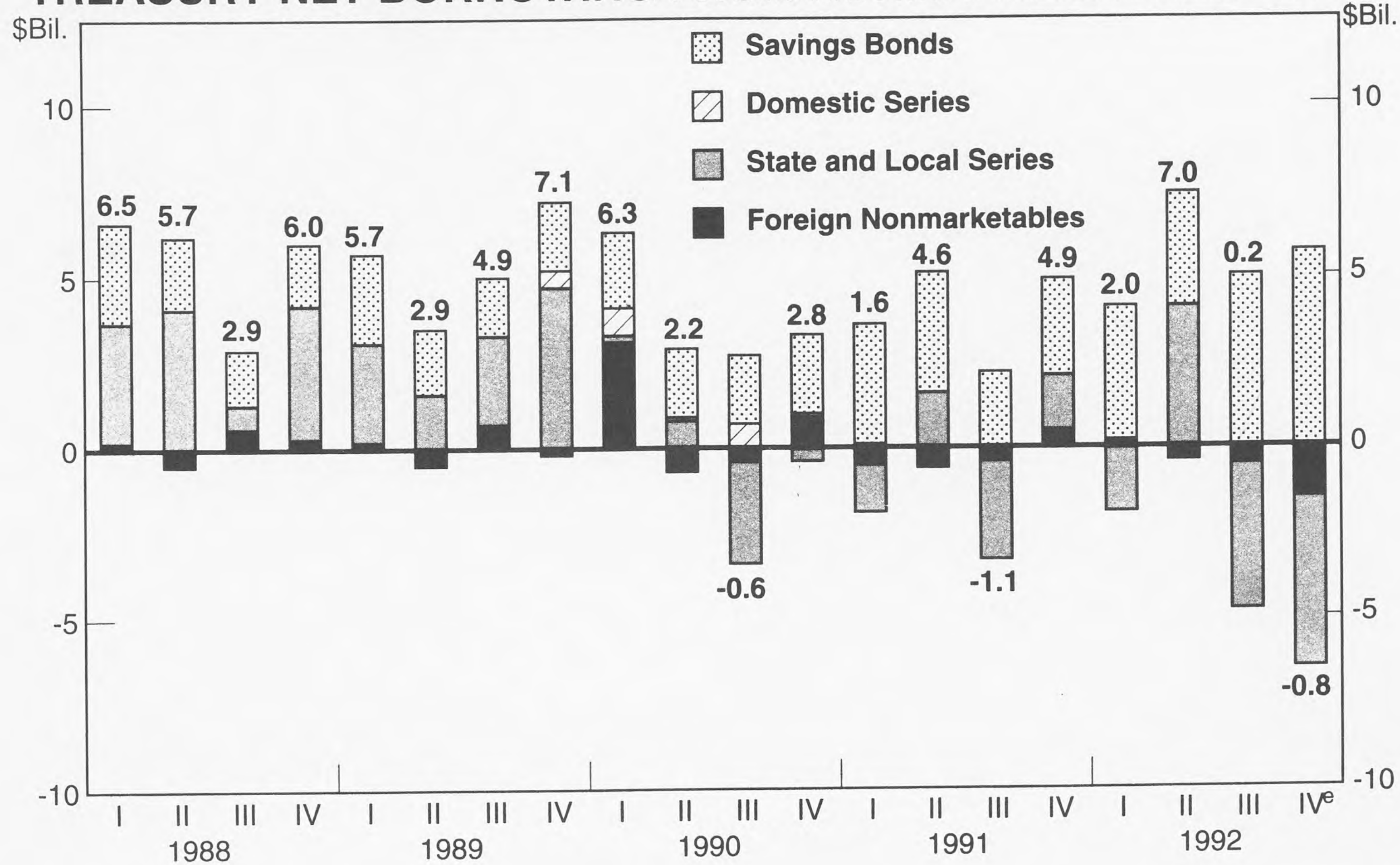
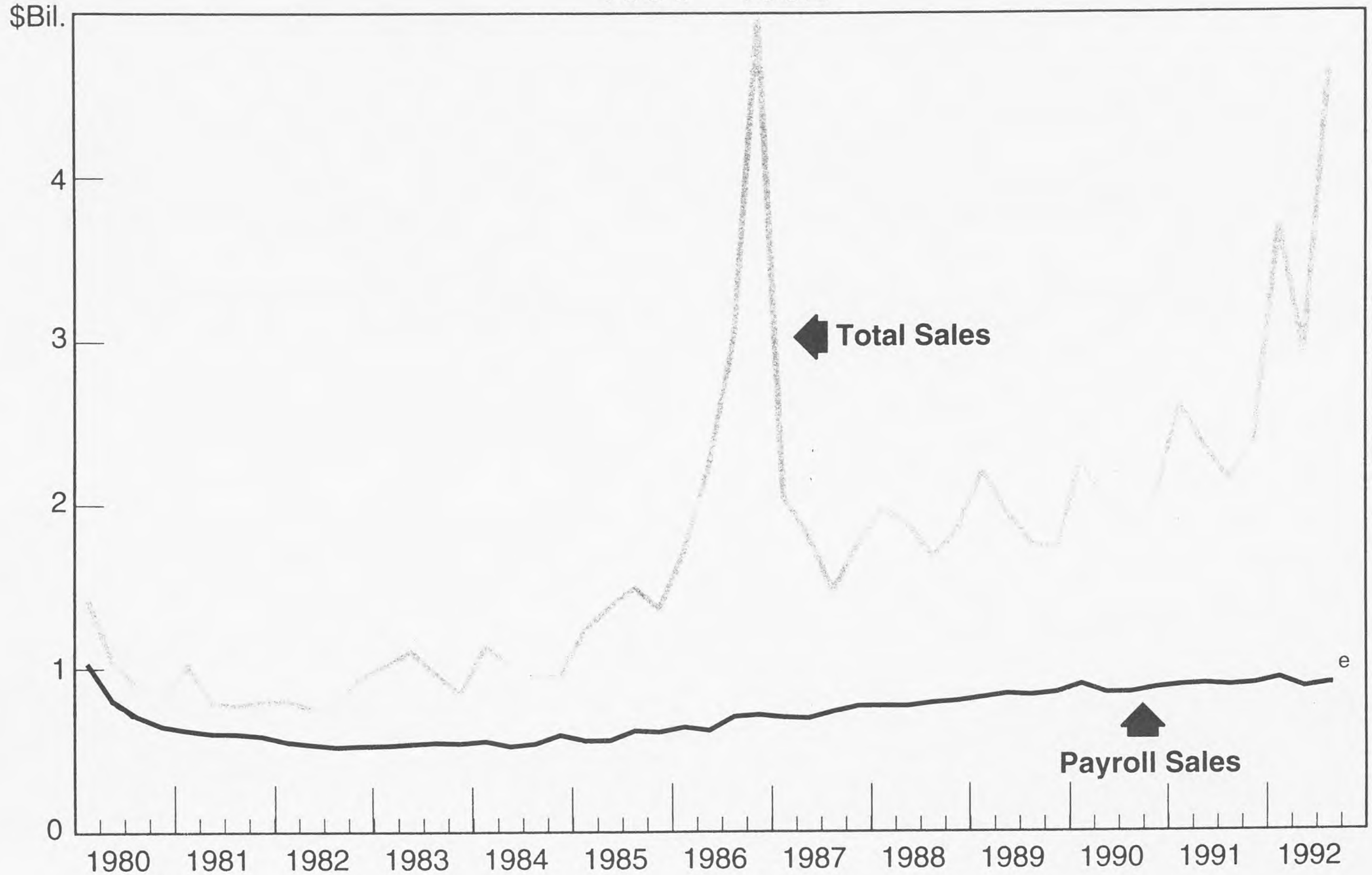
TREASURY NET BORROWING FROM NONMARKETABLE ISSUES



e estimate

SALES OF UNITED STATES SAVINGS BONDS

1980 - 1992



e estimate

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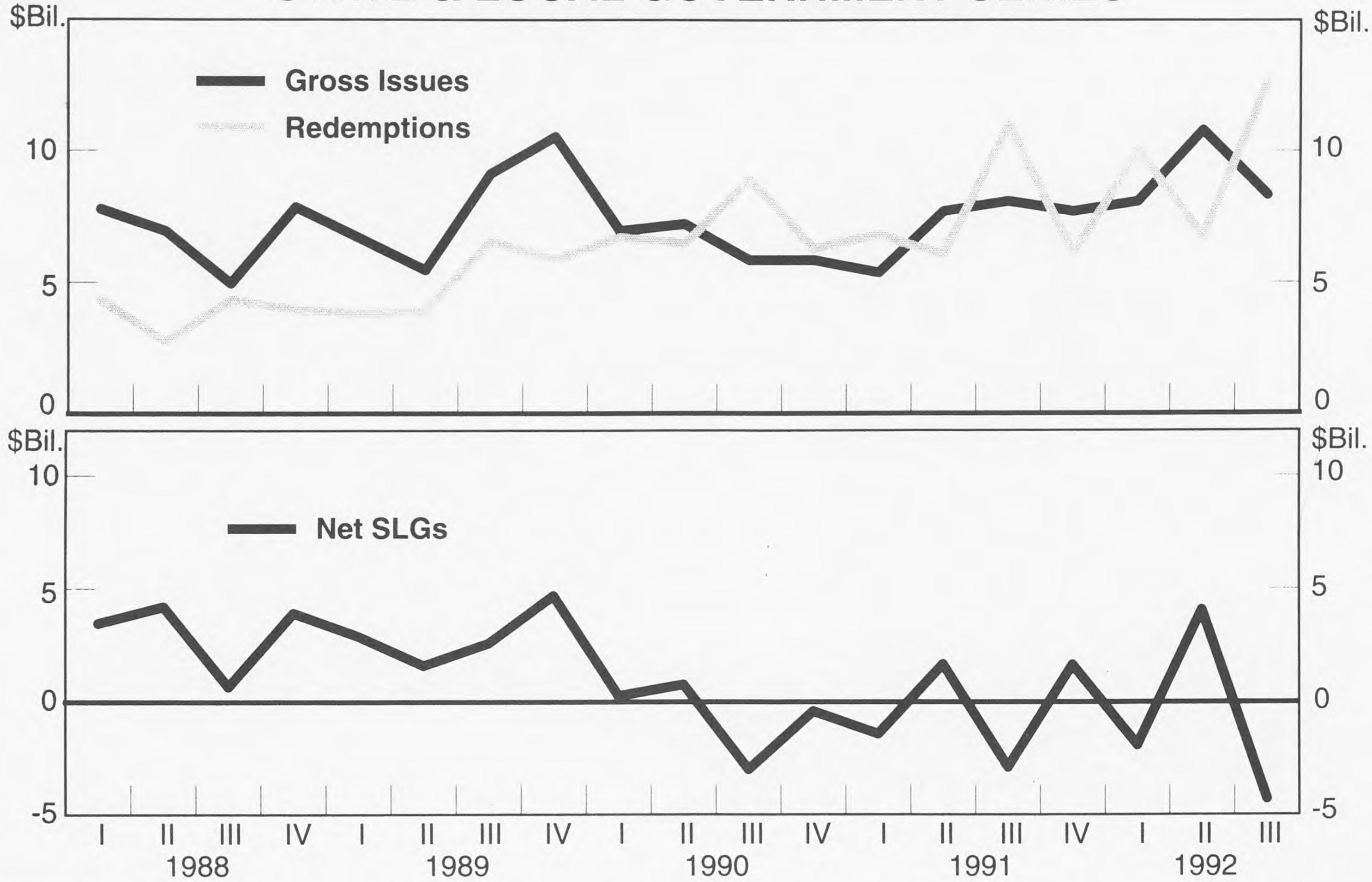
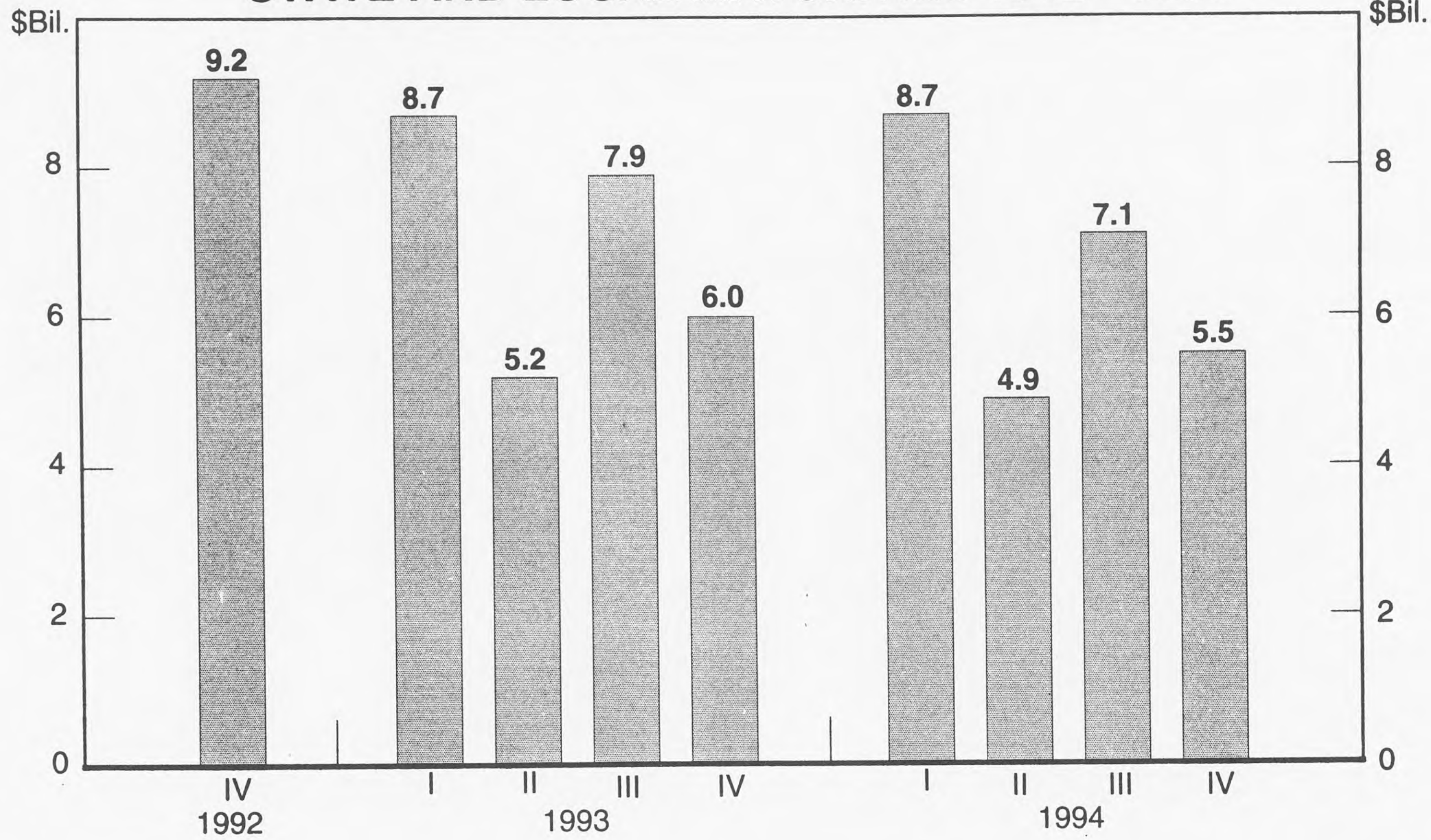
Office of Market Finance

October 30, 1992-10

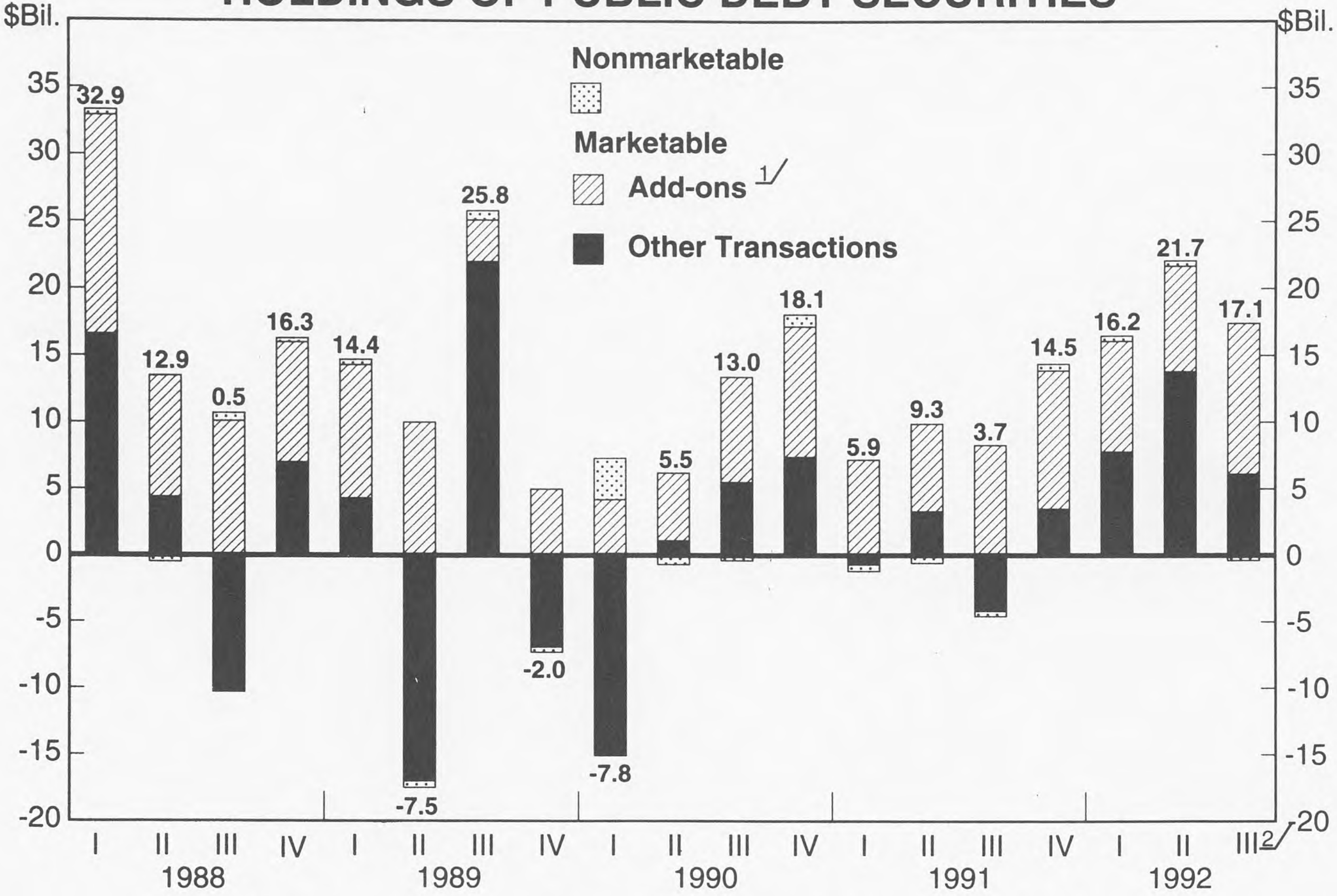
STATE & LOCAL GOVERNMENT SERIES



STATE AND LOCAL MATURITIES 1992 - 1994



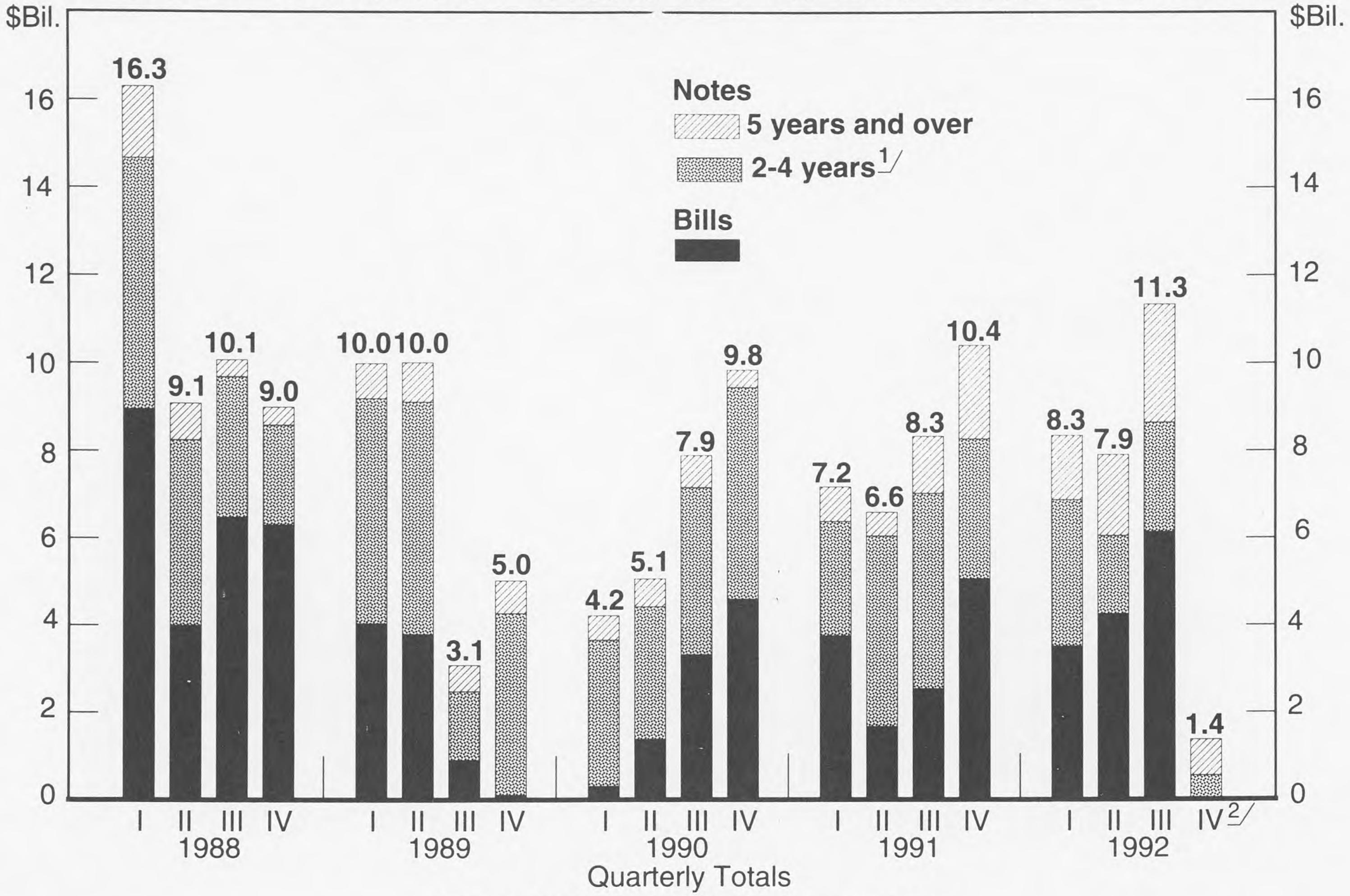
QUARTERLY CHANGES IN FOREIGN AND INTERNATIONAL HOLDINGS OF PUBLIC DEBT SECURITIES



1/ F.R.B purchases of marketable issues as agents for foreign and international monetary authorities which are added to the announced amount of the issue.

2/ Preliminary

FOREIGN ADD-ONS IN TREASURY BILL AND NOTE AUCTIONS



1/ 4 year notes not issued after December 31, 1990.
2/ Through October 30, 1992.

Department of the Treasury
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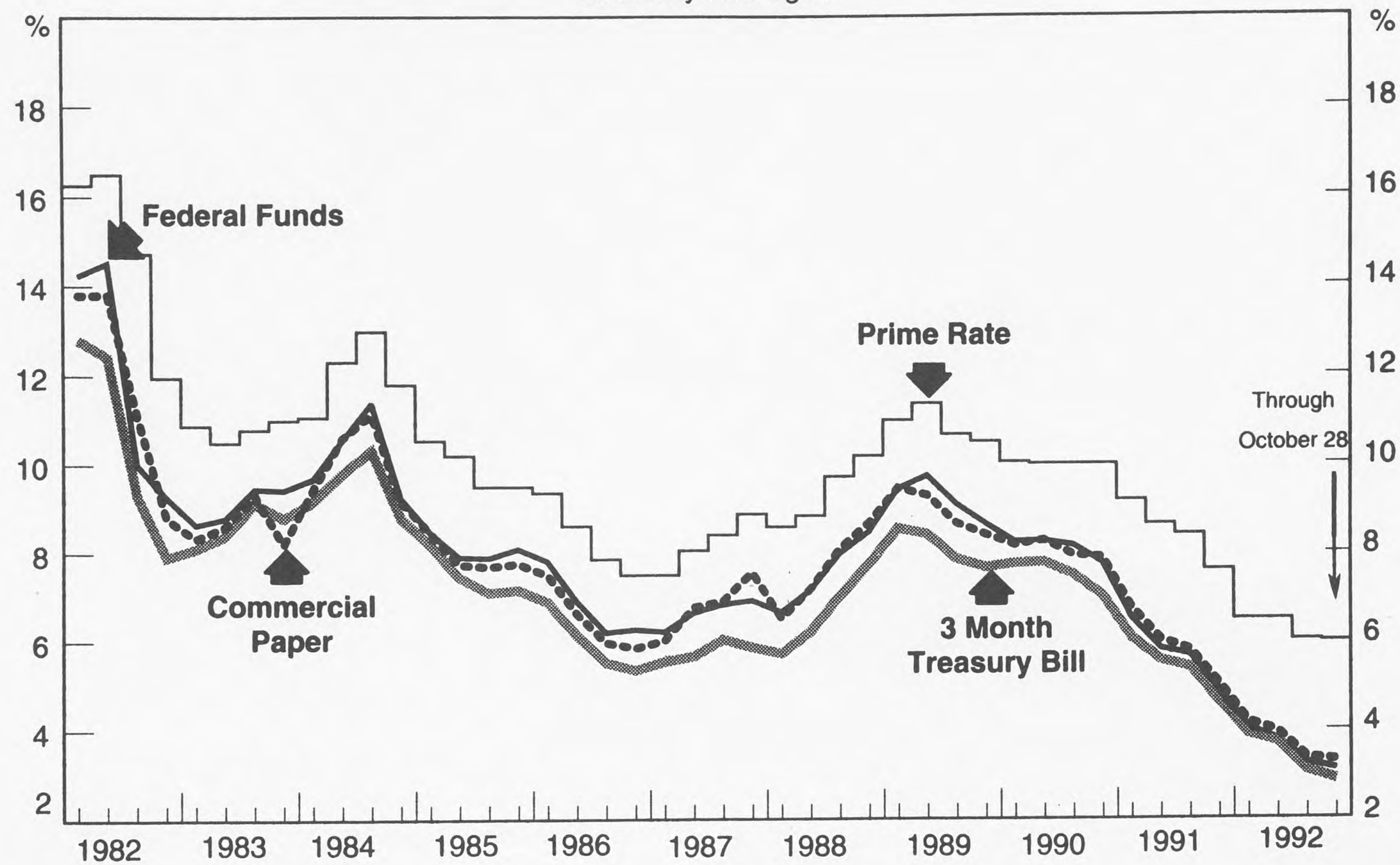
October 30, 1992-9

SHORT TERM INTEREST RATES

Quarterly Averages



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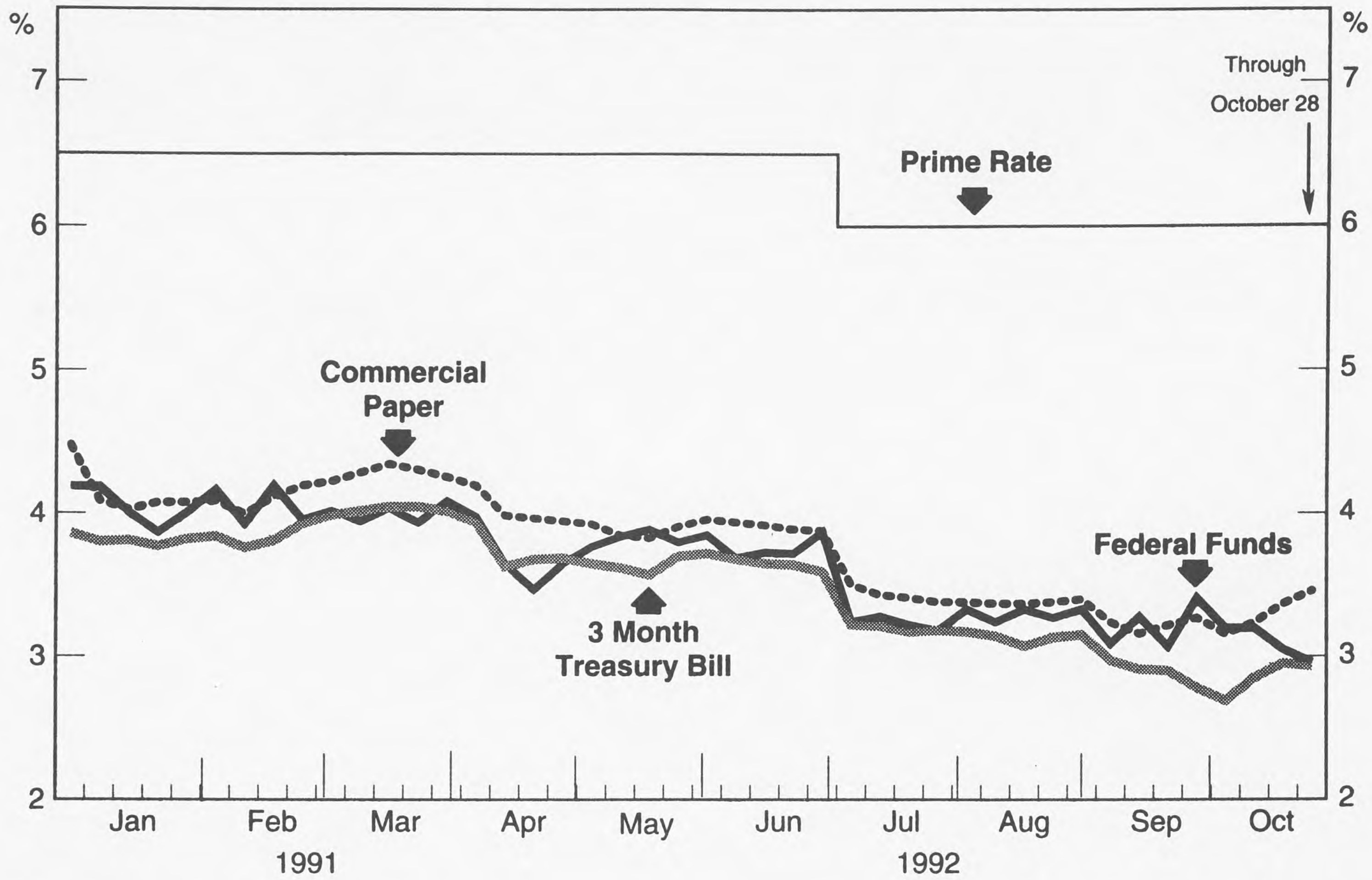
October 30, 1992-20

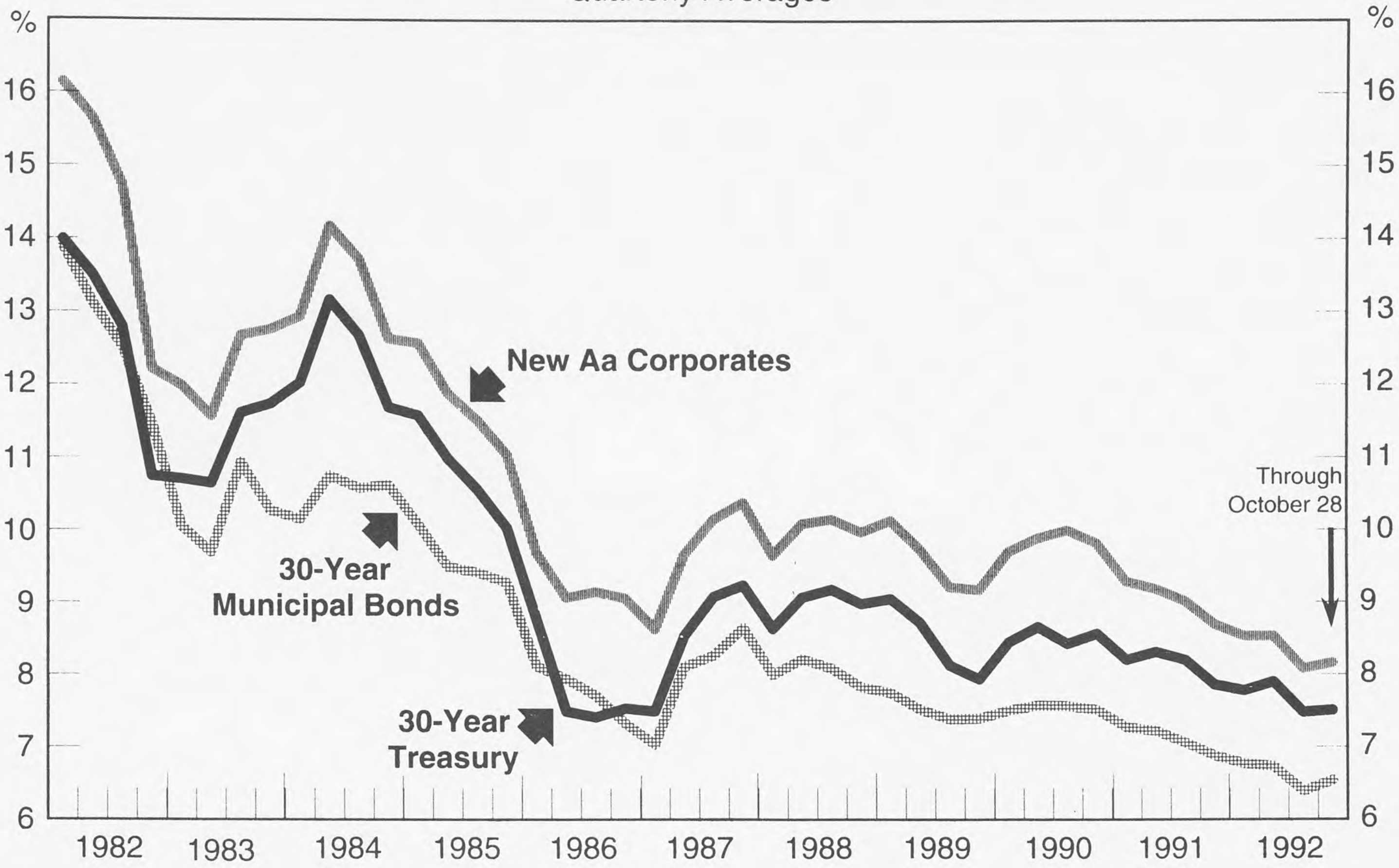
SHORT TERM INTEREST RATES

Weekly Averages



LONG TERM MARKET RATES

Quarterly Averages

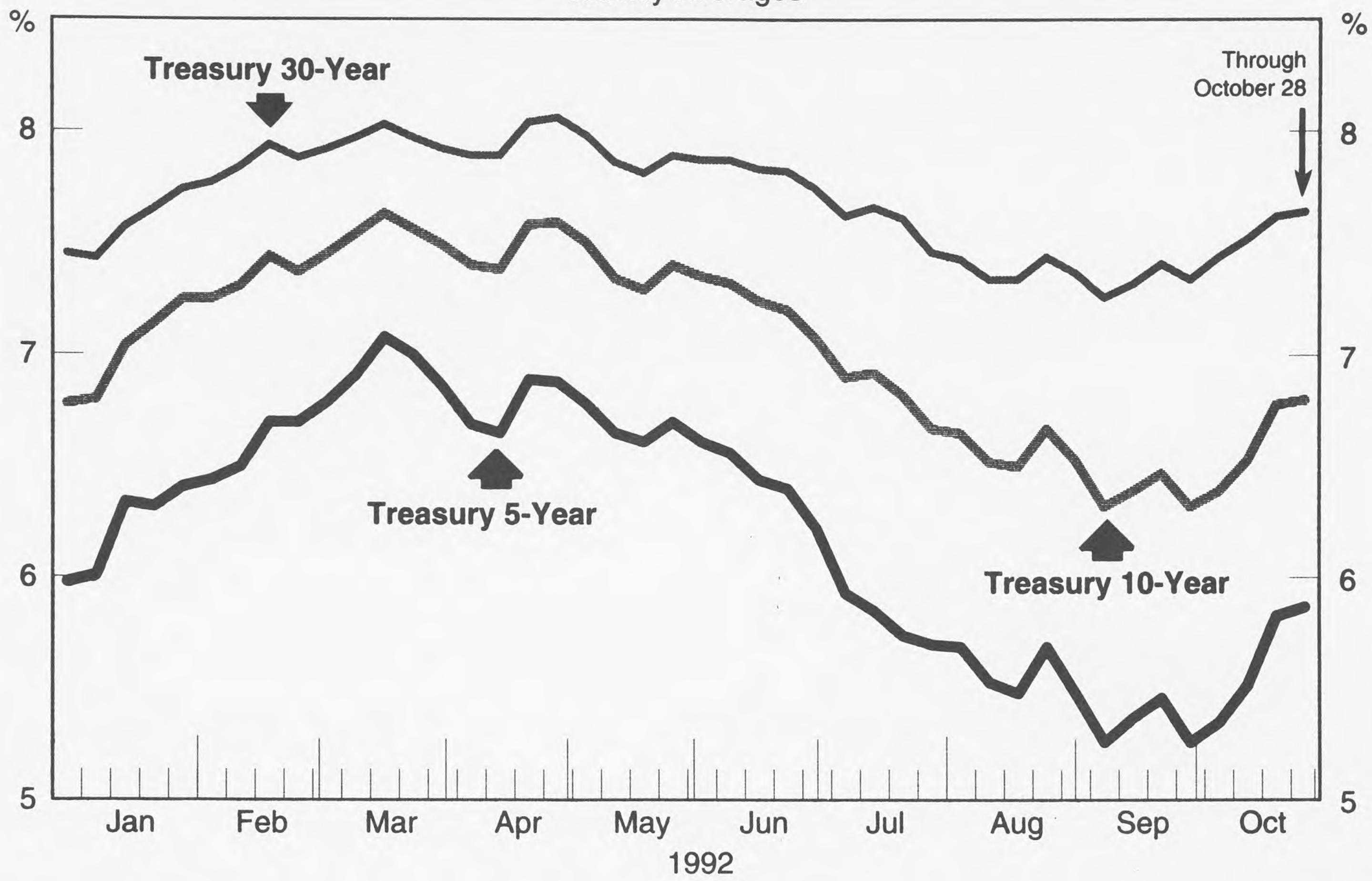


Department of the Treasury
Office of Market Finance

October 30, 1992-22

INTERMEDIATE AND LONG TERM INTEREST RATES

Weekly Averages



Department of the Treasury
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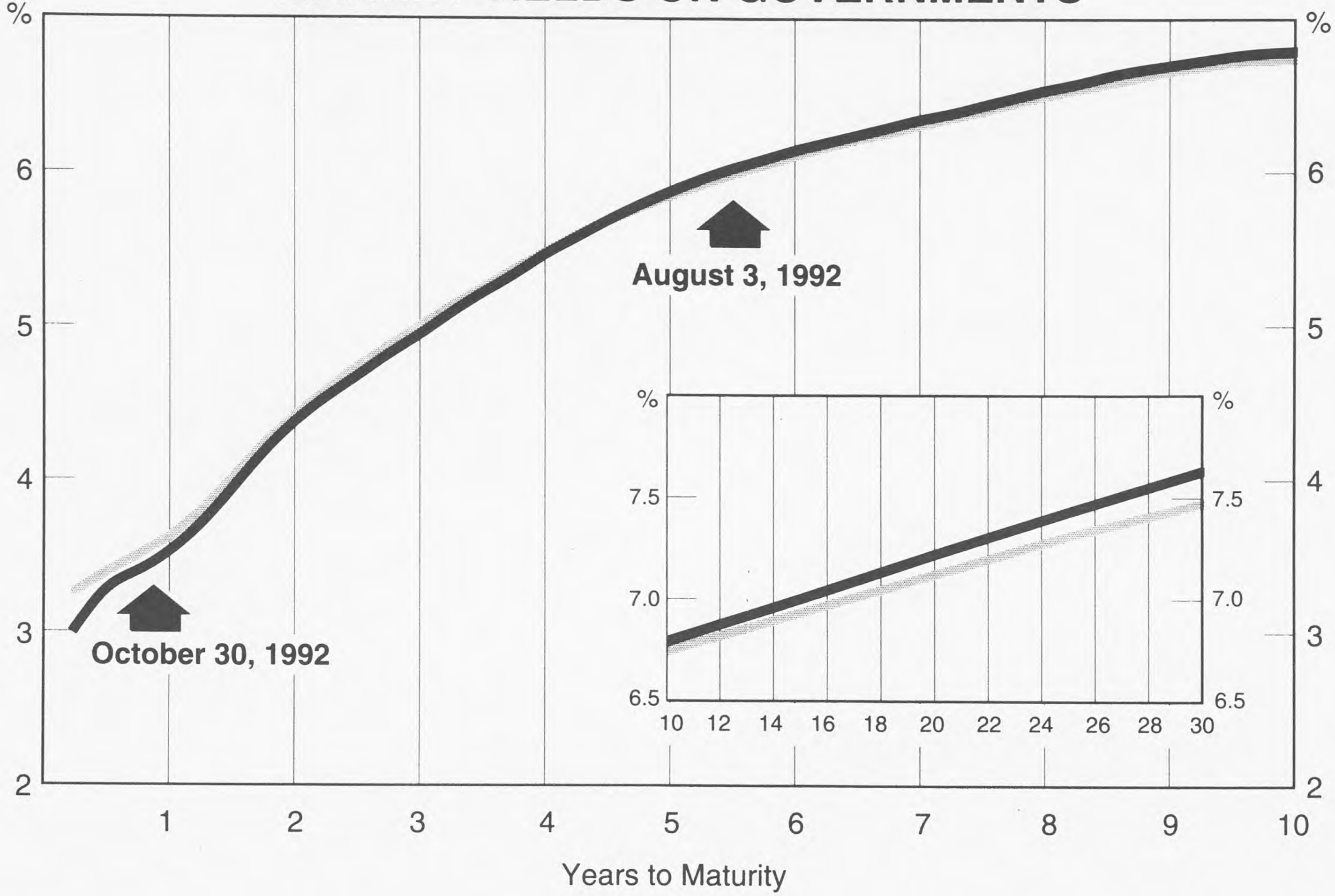
MARKET YIELDS ON GOVERNMENTS



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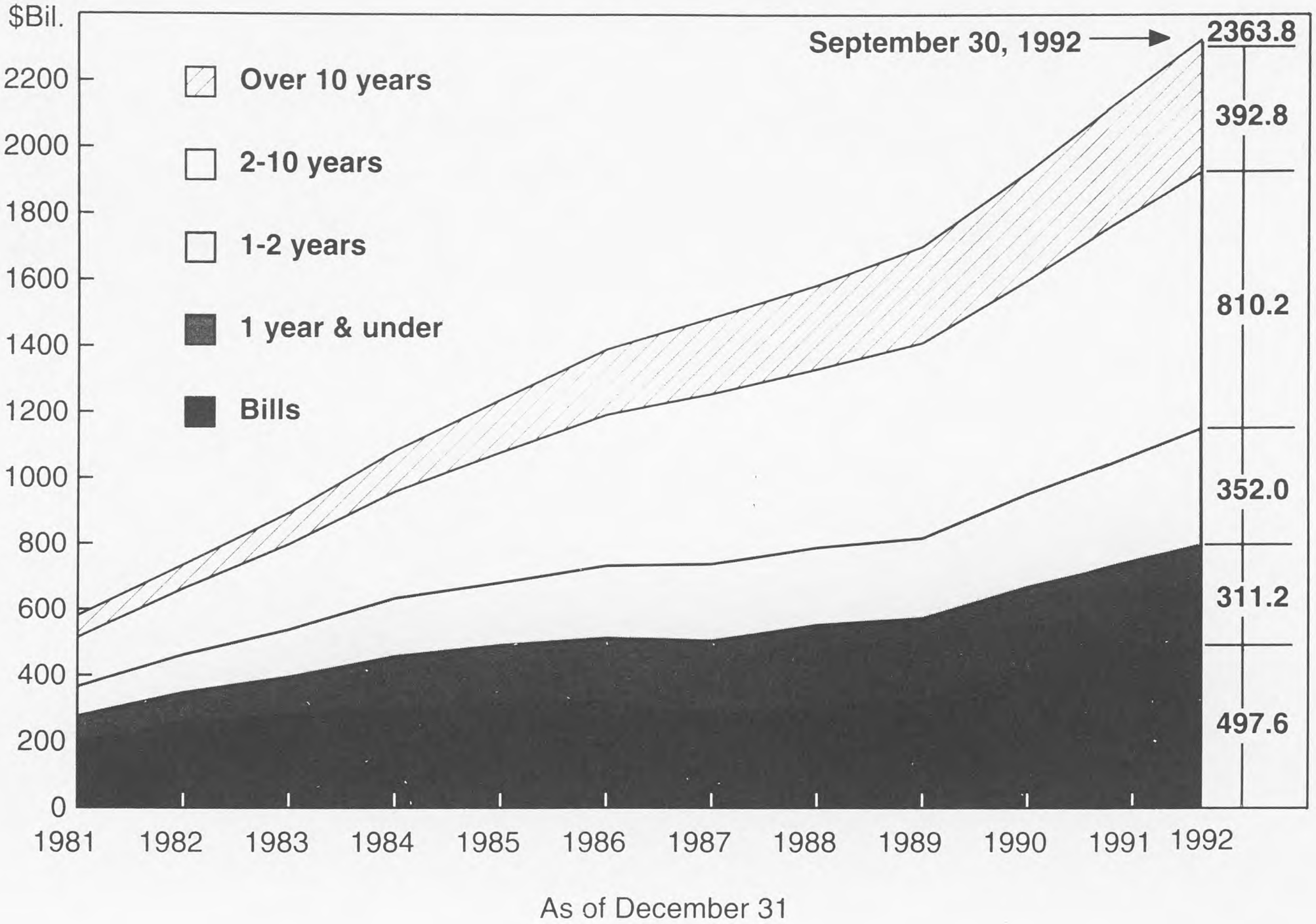
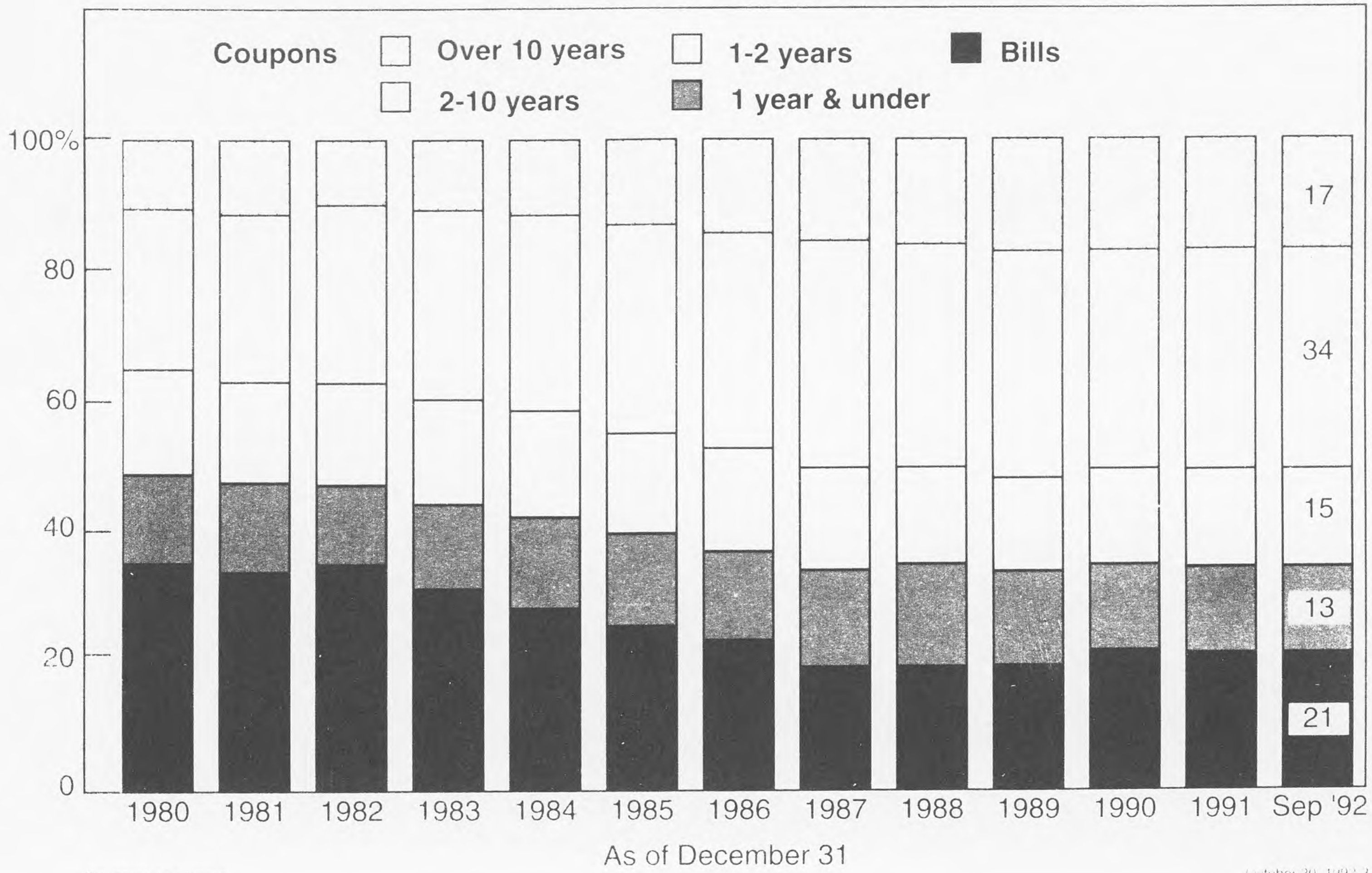
PRIVATE HOLDINGS OF TREASURY MARKETABLE DEBT BY MATURITY



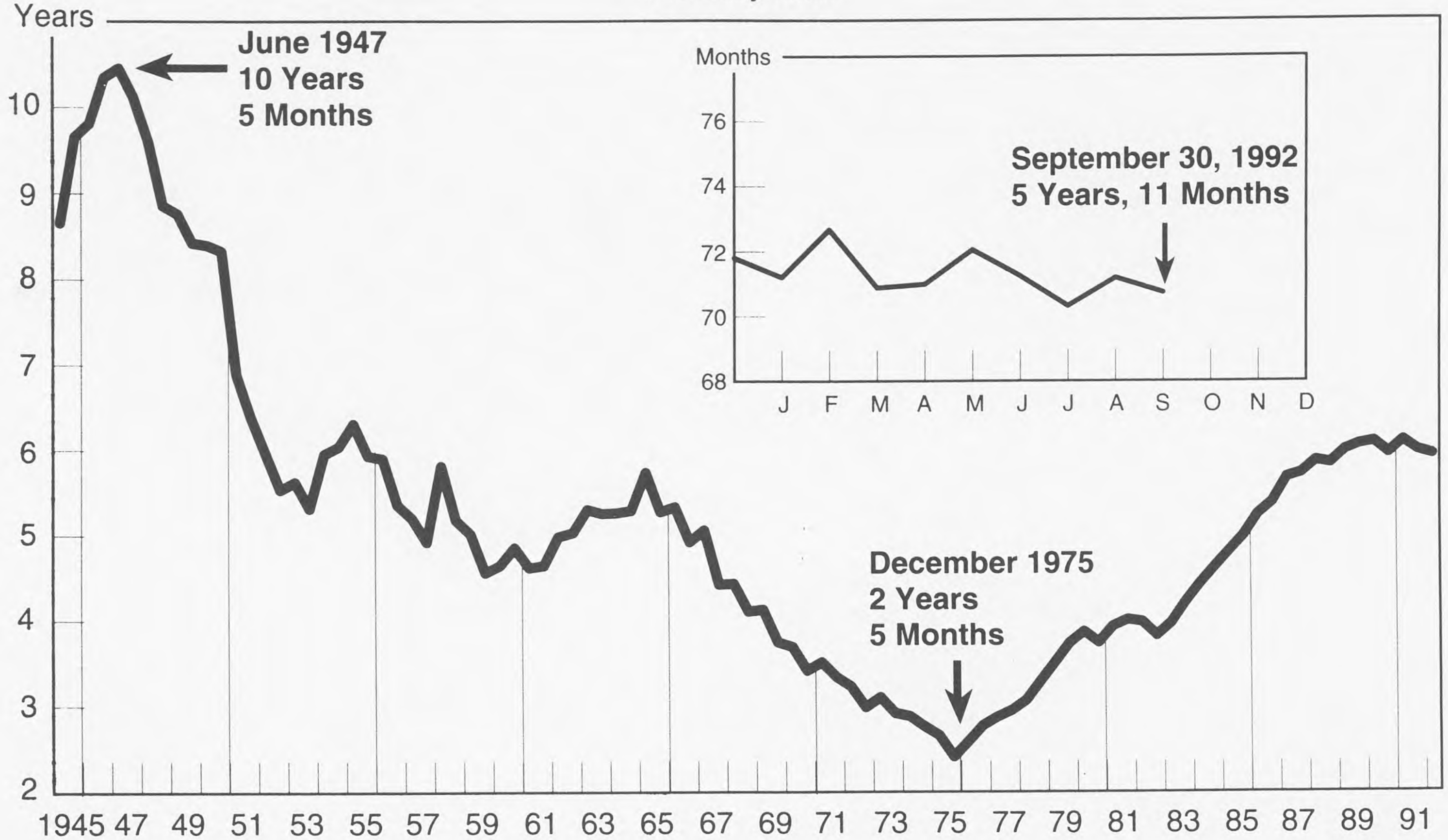
PRIVATE HOLDINGS OF TREASURY MARKETABLE DEBT

Percent Distribution By Maturity



AVERAGE LENGTH OF THE MARKETABLE DEBT

Privately Held



MATURING COUPON ISSUES

November 1992 - March 1993

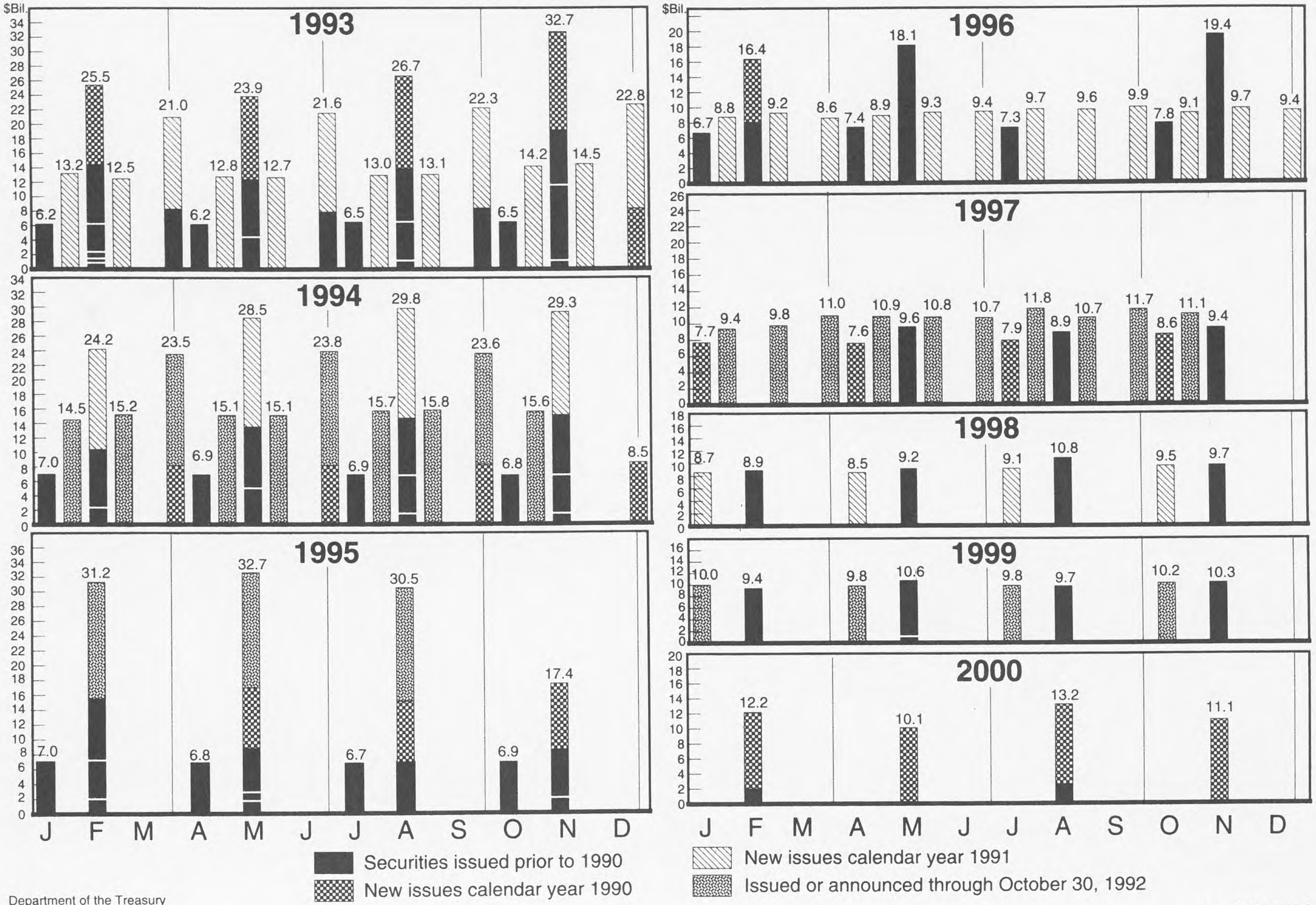
(in millions of dollars)

Maturing Coupons			September 30, 1992			
			Total	Held by		
				Federal Reserve & Government Accounts	Private Investors	Foreign 1/ Investors
10 1/2%	Note	11/15/92	4,330	300	4,030	13
8 3/8%	Note	11/15/92	8,549	115	8,434	1902
7 3/4%	Note	11/15/92	14,311	3,707	10,604	503
7 3/8%	Note	11/30/92	13,852	502	13,332	1,570
9 1/8%	Note	12/31/92	8,287	645	7,642	716
7 1/4%	Note	12/31/92	14,237	926	13,311	713
8 3/4%	Note	01/15/93	6,515	320	6,195	963
7 %	Note	01/31/93	14,120	882	13,238	928
10 7/8%	Note	02/15/93	5,162	780	4,382	55
8 1/4%	Note	02/15/93	8,256	52	8,204	1,017
8 3/8%	Note	02/15/93	14,744	3,730	11,014	1,605
4 %	Bond	02/15/93	60	42	18	—
6 3/4%	Bond	02/15/93	627	112	515	—
7 7/8%	Bond	02/15/93	1,501	162	1,339	—
6 3/4%	Note	02/28/93	13,736	1,225	12,511	490
9 5/8%	Note	03/31/93	9,204	945	8,259	1,660
7 1/8%	Note	03/31/93	14,404	1,657	12,747	1,843
Totals			151,895	16,120	135,775	13,978

1/ F.R.B. custody accounts for foreign official institutions; included in Private Investors.

TREASURY MARKETABLE MATURITIES

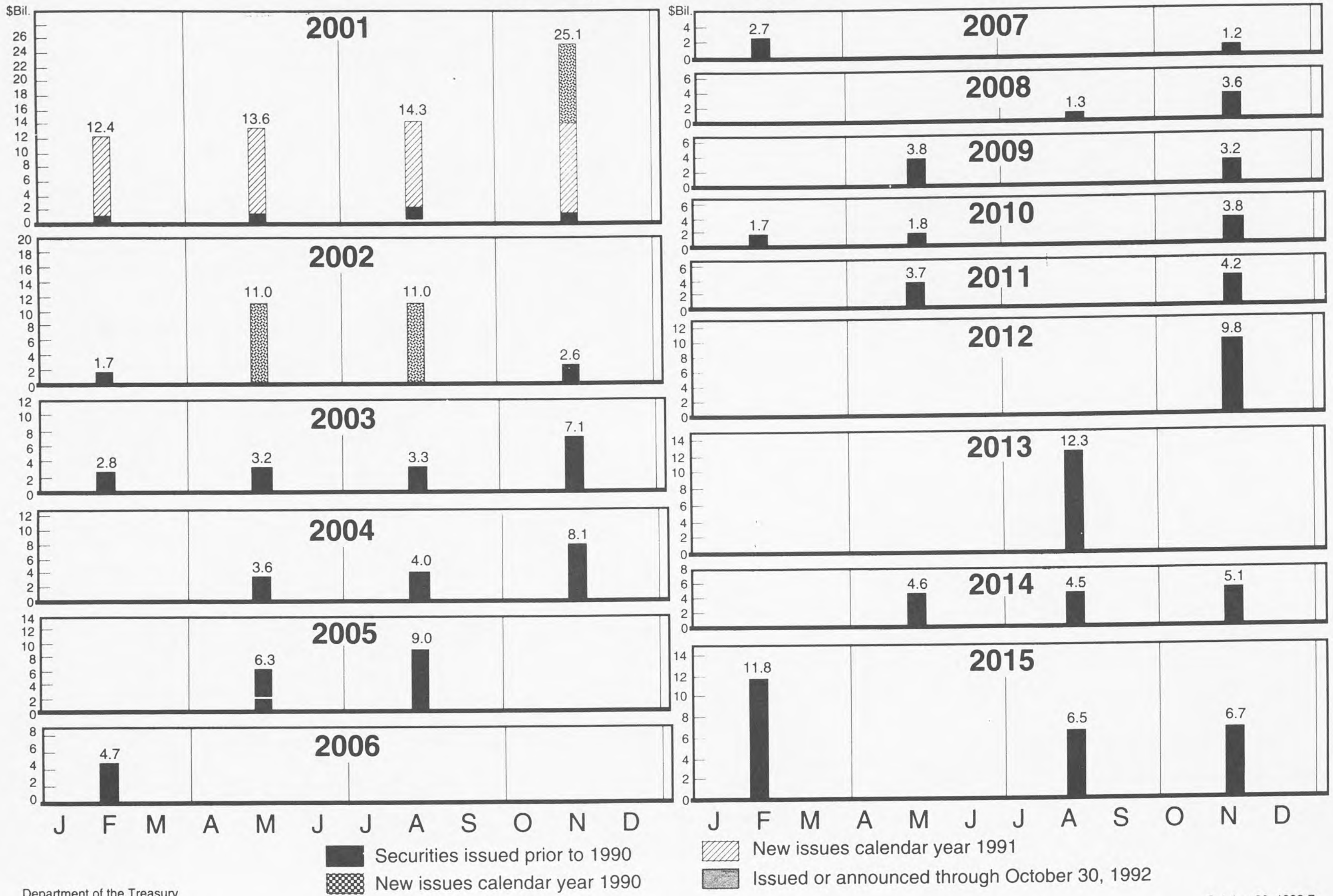
Privately held, Excluding Bills



Department of the Treasury
Office of Market Finance

TREASURY MARKETABLE MATURITIES

Privately held, Excluding Bills



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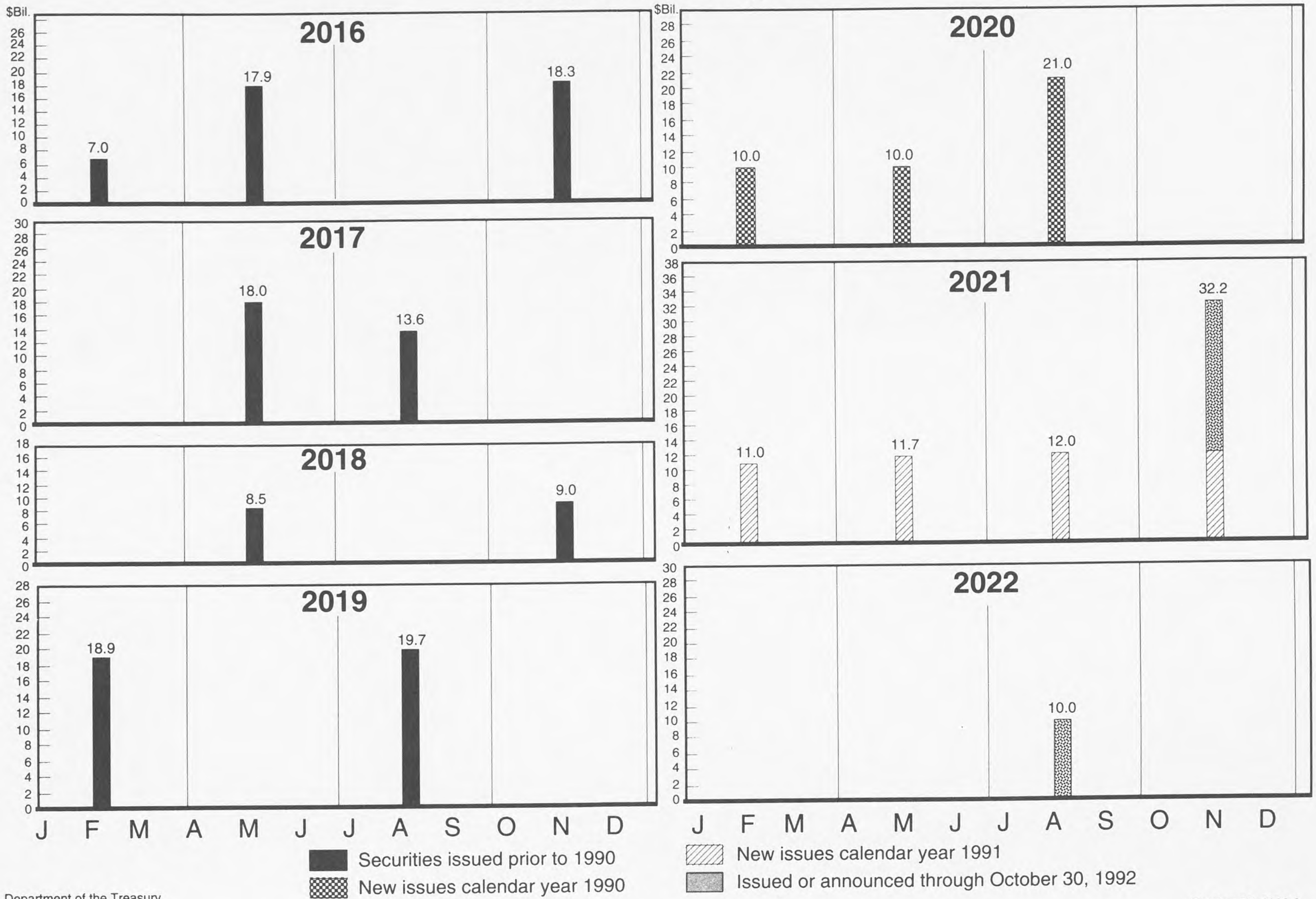
October 30, 1992-7

TREASURY MARKETABLE MATURITIES

Privately held, Excluding Bills



Department of the Treasury
Office of Market Finance

SCHEDULE OF ISSUES TO BE ANNOUNCED AND AUCTIONED IN NOVEMBER 1992 1/

Monday	Tuesday	Wednesday	Thursday	Friday
2	3	4	5	6 Announce 52 week
9 Auction 3 year 2/	10 Auction 10 year 2/	11 Holiday	12 Auction 30 year 2/	13
16	17 Auction 52 week 3/	18 Announce 2 year 5 year	19	20
23 Auction 2 year 4/	24 Auction 5 year 4/	25	26 Holiday	27
30				

1/Does not include weekly bills
2/For settlement November 16
3/For settlement November 19
4/For settlement November 30

Department of Treasury
Office of Market Finance

November 2, 1992-16

SCHEDULE OF ISSUES TO BE ANNOUNCED AND AUCTIONED IN DECEMBER 1992 1/

Monday	Tuesday	Wednesday	Thursday	Friday
	1	2	3	4 Announce 52 week
7	8	9	10 Auction 52 week 2/	11
14	15	16 Announce 2 year 5 year	17	18
21	22 Auction 2 year 3/	23 Auction 5 year 3/	24	25 Holiday
28	29	30	31 Announce 52 week 4/	

1/ Does not include weekly bills
2/ For settlement December 17
3/ For settlement December 31
4/ For auction January 7 and settlement January 14

Department of Treasury
Office of Market Finance

November 2, 1992-17

SCHEDULE OF ISSUES TO BE ANNOUNCED AND AUCTIONED IN JANUARY 1993 1/

Monday	Tuesday	Wednesday	Thursday	Friday
				1 Holiday
4	5	6 Announce 7 year	7 Auction 52 week 2/	8
11	12	13 Auction 7 year 3/	14	15
18 Holiday	19	20	21 Announce 2 year 5 year	22
25	26 Auction 2 year 4/	27 Auction 5 year 4/	28	29 Announce 52 week 5/

1/ Does not include weekly bills
2/ For settlement January 14
3/ For settlement January 15
4/ For settlement February 1
5/ For auction February 4 and settlement February 11

Department of Treasury
Office of Market Finance

November 2, 1992-18

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
November 3, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 23,600 million, to be issued November 12, 1992. This offering will result in a paydown for the Treasury of about $ 225 million, as the maturing bills are outstanding in the amount of $ 23,835 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, November 9, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91 -day bills (to maturity date) for approximately $ 11,800 million, representing an additional amount of bills dated February 13, 1992 and to mature February 11, 1993 (CUSIP No. 912794 A6 1), currently outstanding in the amount of $ 24,573 million, the additional and original bills to be freely interchangeable.

182 -day bills for approximately $ 11,800 million, to be dated November 12, 1992 and to mature May 13, 1993 (CUSIP No. 912794 C7 7).

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 November 12, 1992. 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 $ 1,476 million as agents for foreign and international monetary authorities, and $ 5,621 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 5176-1 (for 13-week series) or Form PD 5176-2 (for 26-week series).

NB-2054

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. 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. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. Adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76 as applicable, 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.

4/17/92

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TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
November 5, 1992

CONTACT: Scott Dykema
(202) 622-2960

UNDER SECRETARY DAVID C. MULFORD TO LEAVE TREASURY

Secretary Nicholas F. Brady announced today that David C. Mulford, Under Secretary for International Affairs, will leave the Treasury to accept a position in the private sector.

In announcing Dr. Mulford's departure, Secretary Brady said "David's long career at Treasury is marked by exceptional achievement and distinguished service to the nation. His in-depth knowledge of global markets, negotiating acumen, and boundless energy will be missed by me both professionally and personally."

Dr. Mulford leaves Treasury to join the CS First Boston Group, Inc., where he will be Vice Chairman of First Boston Corporation in New York and Deputy Chairman of Credit Suisse First Boston, Ltd., in London. In addition, Dr. Mulford will have an association with the Center for Strategic and International Studies in Washington, D.C., as Special Advisor and Distinguished Scholar.

Dr. Mulford has served as Under Secretary for International Affairs since May 1989. Prior to taking that post, he was the Assistant Treasury Secretary for International Affairs from March 1984 until April 1989. As the top international economic policy official at Treasury -- a post he has held longer than any presidential appointee since the end of World War II, Dr. Mulford has played a key role in many aspects of U.S. policy-making. He was the G-7 Deputy for the United States with responsibility for coordinating economic policies with other G-7 industrial countries and was responsible for exchange market policies. He developed the Plaza Accord strategy with Secretary Baker in 1985 and has been the Administration's leading official in developing the G-7 economic policy coordination process since the mid-1980s. Since 1986, he acted for the President as "financial sherpa" in the preparation of the annual Economic Summits of industrial nations.

Among his many accomplishments at Treasury, Dr. Mulford: played a key role in developing and implementing both the Baker and Brady international debt strategies; chaired the yen/dollar negotiations to open and liberalize Japan's capital markets; was a key architect of President Bush's Enterprise for the Americas

Initiative; chaired the Gulf Crisis Financial Coordination Group to coordinate resource flows for front-line states during the Gulf War; led the U.S. delegation that negotiated the formation of the European Development Bank; negotiated Poland's debt reduction agreement in 1991; served as the Administration's point man on financial assistance to Russia; and negotiated the 1991 external debt deferral agreement with the former Soviet Union and this year's $24 billion aid package assembled by major industrial nations. Dr. Mulford also was responsible for U.S. exchange rate negotiations with the new industrial economies of Asia and for U.S. participation in the International Monetary Fund, the World Bank, Inter-American Development Bank and the European Development Bank.

Prior to serving at Treasury, Dr. Mulford spent 20 years in the international investment banking business. He served as Senior Advisor at the Saudi Arabian Monetary Agency in Riyadh, Saudi Arabia, as well as Director of Merrill Lynch, Pierce, Fenner & Smith (1974-1984) and Director of White, Weld, & Co., Inc. (1966-1974). Dr. Mulford was a White House Fellow during 1965-66, serving as Special Assistant to the Secretary of the Treasury.

Dr. Mulford earned a doctorate in philosophy in 1965 from Oxford University and his M.A. in political science from Boston University in 1962, specializing in African Studies. He graduated from Lawrence University with a B.A. (cum laude) in economics in 1959. He was awarded the Legion d'Honneur by the President of France in 1990 and received an Honorary Doctor of Laws Degree in 1984 from Lawrence University, where he serves as a member of the Board of Trustees. In 1992 Dr. Mulford was recognized as a member of the Academy of Distinguished Alumni of the Graduate School of Boston University. He is also a member of the Council on Foreign Relations.

Born and raised in Rockford, Illinois, he now resides with his wife, the former Jeannie Simmons, in Alexandria, Virginia.

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AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 5, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 41-DAY BILLS

Tenders for $15,042 million of 41-day bills to be issued November 6, 1992 and to mature December 17, 1992 were accepted today (CUSIP: 912794ZB3).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	2.98%	3.03%	99.661
High	3.00%	3.06%	99.658
Average	3.00%	3.06%	99.658

Tenders at the high discount rate were allotted 91%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	0	0
New York	40,680,000	14,963,350
Philadelphia	0	0
Cleveland	1,000	0
Richmond	130,000	50,050
Atlanta	0	0
Chicago	1,451,000	23,660
St. Louis	0	0
Minneapolis	0	0
Kansas City	0	0
Dallas	0	0
San Francisco	1,505,000	4,550
Treasury	0	0
TOTALS	$43,767,000	$15,041,610
Type		
Competitive	$43,767,000	$15,041,610
Noncompetitive	0	0
Subtotal, Public	$43,767,000	$15,041,610
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$43,767,000	$15,041,610

NB-2056

PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
November 5, 1992

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR OCTOBER 1992

Treasury's Bureau of the Public Debt announced activity figures for the month of October 1992, of securities within the Separate Trading of Registered Interest and Principal of Securities program, (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$635,506,316
Held in Unstripped Form	$478,591,766
Held in Stripped Form	$156,914,550
Reconstituted in October	$14,430,940

The accompanying table gives a breakdown of STRIPS activity by individual loan description. The balances in this table are subject to audit and subsequent revision. These monthly figures are included in Table VI of the Monthly Statement of the Public Debt, entitled "Holdings of Treasury Securities in Stripped Form." These can also be obtained through a recorded message on (202) 874-4023.

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PA-111

TABLE VI—HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, OCTOBER 31, 1992

(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding			Reconstituted This Month[1]
		Total	Portion Held in Unstripped Form	Portion Held in Stripped Form	
11-5/8% Note C-1994	11/15/94	$6,658,554	$4,743,354	$1,915,200	$112,000
11-1/4% Note A-1995	2/15/95	6,933,861	5,484,901	1,448,960	24,800
11-1/4% Note B-1995	5/15/95	7,127,086	4,777,326	2,349,760	-0-
10-1/2% Note C-1995	8/15/95	7,955,901	5,784,701	2,171,200	5,200
9-1/2% Note D-1995	11/15/95	7,318,550	4,838,550	2,480,000	20,400
8-7/8% Note A-1996	2/15/96	8,415,119	7,723,919	691,200	20,800
7-3/8% Note C-1996	5/15/96	20,085,643	19,503,243	582,400	-0-
7-1/4% Note D-1996	11/15/96	20,258,810	18,641,210	1,617,600	165,600
8-1/2% Note A-1997	5/15/97	9,921,237	8,930,437	990,800	56,000
8-5/8% Note B-1997	8/15/97	9,362,836	8,498,836	864,000	-0-
8-7/8% Note C-1997	11/15/97	9,808,329	7,997,129	1,811,200	-0-
8-1/8% Note A-1998	2/15/98	9,159,068	8,952,028	207,040	1,600
9% Note B-1998	5/15/98	9,165,387	8,541,387	624,000	112,000
9-1/4% Note C-1998	8/15/98	11,342,646	11,013,046	329,600	120,000
8-7/8% Note D-1998	11/15/98	9,902,875	8,917,275	985,600	28,800
8-7/8% Note A-1999	2/15/99	9,719,623	9,286,023	433,600	-0-
9-1/8% Note B-1999	5/15/99	10,047,103	8,754,303	1,292,800	-0-
8% Note C-1999	8/15/99	10,163,644	9,913,119	250,525	-0-
7-7/8% Note D-1999	11/15/99	10,773,960	10,473,160	300,800	22,400
8-1/2% Note A-2000	2/15/00	10,673,033	10,657,033	16,000	100,800
8-7/8% Note B-2000	5/15/00	10,496,230	9,843,430	652,800	-0-
8-3/4% Note C-2000	8/15/00	11,080,646	10,923,206	157,440	-0-
8-1/2% Note D-2000	11/15/00	11,519,682	11,349,282	170,400	12,000
7-3/4% Note A-2001	2/15/01	11,312,802	11,246,402	66,400	-0-
8% Note B-2001	5/15/01	12,398,083	12,085,083	313,000	-0-
7-7/8% Note C-2001	8/15/01	12,339,185	11,918,385	420,800	-0-
7-1/2% Note D-2001	11/15/01	24,226,102	24,226,102	-0-	-0-
7-1/2% Note A-2002	5/15/02	11,714,397	11,461,037	253,360	-0-
6-3/8% Note B-2002	8/15/02	11,749,270	11,712,470	36,800	-0-
11-5/8% Bond 2004	11/15/04	8,301,806	4,956,206	3,345,600	1,089,600
12% Bond 2005	5/15/05	4,260,758	3,143,108	1,117,650	65,000
10-3/4% Bond 2005	8/15/05	9,269,713	8,583,313	686,400	646,400
9-3/8% Bond 2006	2/15/06	4,755,916	4,755,916	-0-	-0-
11-3/4% Bond 2009-14	11/15/14	6,005,584	1,883,184	4,122,400	1,046,400
11-1/4% Bond 2015	2/15/15	12,667,799	3,107,959	9,559,840	1,550,240
10-5/8% Bond 2015	8/15/15	7,149,916	1,762,396	5,387,520	198,400
9-7/8% Bond 2015	11/15/15	6,899,859	2,119,059	4,780,800	553,600
9-1/4% Bond 2016	2/15/16	7,266,854	5,819,654	1,447,200	88,000
7-1/4% Bond 2016	5/15/16	18,823,551	18,140,351	683,200	13,600
7-1/2% Bond 2016	11/15/16	18,864,448	17,395,648	1,468,800	138,000
8-3/4% Bond 2017	5/15/17	18,194,169	5,299,769	12,894,400	198,080
8-7/8% Bond 2017	8/15/17	14,016,858	8,154,458	5,862,400	-0-
9-1/8% Bond 2018	5/15/18	8,708,639	2,039,839	6,668,800	273,600
9% Bond 2018	11/15/18	9,032,870	1,437,470	7,595,400	243,800
8-7/8% Bond 2019	2/15/19	19,250,798	6,069,998	13,180,800	332,800
8-1/8% Bond 2019	8/15/19	20,213,832	13,025,672	7,188,160	216,000
8-1/2% Bond 2020	2/15/20	10,228,868	4,706,868	5,522,000	224,400
8-3/4% Bond 2020	5/15/20	10,158,883	2,342,083	7,816,800	76,320
8-3/4% Bond 2020	8/15/20	21,418,606	4,613,326	16,805,280	228,160
7-7/8% Bond 2021	2/15/21	11,113,373	10,182,173	931,200	-0-
8-1/8% Bond 2021	5/15/21	11,958,888	5,504,808	6,454,080	778,560
8-1/8% Bond 2021	8/15/21	12,163,482	10,496,922	1,666,560	625,280
8% Bond 2021	11/15/21	32,798,394	24,519,219	8,279,175	4,842,300
7-1/4% Bond 2022	8/15/22	10,352,790	10,335,990	16,800	200,000
Total		635,506,316	478,591,766	156,914,550	14,430,940

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

Note: On the 4th workday of each month a recording of Table VI will be available after 1:00 pm. The telephone number is (202) 874-4023. The balances in this table are subject to audit and subsequent adjustments.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
November 6, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $14,250 million of 364-day Treasury bills to be dated November 19, 1992 and to mature November 18, 1993 (CUSIP No. 912794 E5 9). This issue will provide about $1,975 million of new cash for the Treasury, as the maturing 52-week bill is outstanding in the amount of $12,276 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Tuesday, November 17, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders.

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 November 19, 1992. In addition to the maturing 52-week bills, there are $ 23,959 million of maturing bills which were originally issued as 13-week and 26-week bills. The disposition of this latter amount will be announced next week. Federal Reserve Banks currently hold $ 2,241 million as agents for foreign and international monetary authorities, and $ 8,592 million for their own account. These amounts represent the combined holdings of such accounts for the three 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 $ 430 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 5176-3.

NB-2057

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. 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. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. Adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76 as applicable, 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.

4/17/92

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

REMARKS BY
DEPUTY SECRETARY OF THE TREASURY JOHN E. ROBSON
KELLOGG ALUMNI CLUB OF NEW YORK
NEW YORK, NEW YORK
NOVEMBER 9, 1992

Thank you. As business professionals, we are used to planning ahead, to recognizing and seizing the opportunities of the future. For the past three years I have served as one of President Bush's Coordinators of U.S. Assistance to Eastern Europe (as well as the former Soviet Union), and have witnessed the potential opportunities of the future in that part of the world. Tonight, I would like to talk with you about what we have done and what more can be done to help the reform efforts in Eastern Europe, and in so doing, open the door for American businesses to capitalize on these opportunities.

In the past four years, democracy and free enterprise have brought new ideas and new hope to lands which were shrouded behind the Iron Curtain for over four decades. From Budapest to Bucharest, from the Baltic to the Black Sea, the former command economies of Eastern Europe and the former Soviet Union are being transformed into market-oriented economies. It has not been an easy process, and it is by no means finished. But recent developments in a number of countries provide encouragement to hope for ultimate success.

Eastern European countries suffered a predictable and harsh decline in economic output in the past couple of years. But several countries -- Czechoslovakia, Hungary and Poland -- have stabilized this slide in 1992, and have a chance to register positive growth in 1993. These countries have reoriented trade toward convertible currency markets, and their efforts have been rewarded as their exports have risen sharply recently. We in the West must open our markets and pursue strong domestic growth policies to nurture these first signs of positive economic growth in Eastern Europe.

Private sector entrepreneurship is rising rapidly in countries like Poland, where, for example, the Polish-American Enterprise Fund has enjoyed tremendous success with its Windows Program of small loans to entrepreneurs. Since the end of 1990, there has been only a handful of problem loans -- only around 20 -- out of a portfolio of more than 1,400 approved loans. Such an admirable record should inspire us to expand on successful programs like this one and to create others like it.

Success stories like this -- along with the holding of free elections and progress on currency stabilization, price reform, and trade liberalization -- are solid evidence of the wave of political and economic reform that has swept through the countries of Eastern Europe. But let's not kid ourselves -- there is still a long road ahead.

And the road to successful and durable economic reform for these former communist political and economic systems will not be a straight or well-paved one. Rather, it will be full of hidden curves, bumpy stretches, and unexpected detours. We must all be prepared to endure some wrong turns and a few pit stops. And it is important that the American government and our private sector continue to provide support along the way.

It is also important that we help teach the emerging business professionals of Eastern Europe the skills they will need to drive this road to reform -- an economic Driver's Ed, if you will. Simply throwing money at them won't work, and is a huge waste. This is not the time for a second Marshall Plan for the countries of Eastern Europe and the former Soviet Union, since they lack the mature institutions of a market economy and the managerial class that were firmly in place in Western Europe after World War II.

Indeed, it is important to keep in mind that reform cannot be imposed from the top down, but must take root and grow from the bottom up. Market economies cannot be purchased and delivered intact by the West, but must be nurtured and fought for by the East. No one ever learned anything by having someone else do their homework for them. The best form of technical assistance we can provide these countries is to get people with the experience, training and insights of free enterprise systems on the ground, and let the people of Eastern Europe draw on their acumen.

The Bush Administration has followed this philosophy by focusing U.S. economic assistance efforts on private sector development, management training, and private sector cooperation. For example, we established enterprise funds in Poland, Hungary, Bulgaria, and Czechoslovakia to stimulate private sector growth. These enterprise funds make loans and equity investments in private sector businesses, and have awarded technical assistance grants for everything from banker and small business training in Poland to MBA Enterprise Corps activities in Czechoslovakia to a visitors center at the Budapest Stock Exchange.

The Treasury Department has played an important role in the government's overall assistance efforts, administering a multi-million dollar financial sector technical assistance program that focuses on three areas: Financial advisors, tax assistance, and banker training. We have provided experienced, long-term advisors in economic policy, government finance, and banking regulation, and have shared the kind of expertise that will strengthen these fledgling market economies.

The private sector has joined in the fight for economic reforms in Eastern Europe. The Kellogg School of Management has been particularly helpful in establishing and augmenting training institutes of banking and finance. The comprehensive curricula for financial training developed by Kellogg address the varying needs of local bankers, provide them with a firm foundation of basic business skills, and will allow them to build on this foundation through practical, hands-on application of the lessons learned.

One thing to bear in mind when developing these management training activities is that a rigid, one-size-fits-all master plan is unlikely to work. The delivery of business skills training in Eastern Europe will be a hit-and-miss operation. There will be some successes, and surely some failures. And we must be ready to change and adapt our programs to fit different environments, and to tailor our training to different needs.

Kellogg's program appears to do this by developing different skills that bankers need in different stages of their careers -- credit analysis, asset/liability management, operations and automation, and human resources development. The curricula will also offer senior management courses on topics such as banking supervision, international banking, and financial planning. These courses can go a long way toward establishing the managerial skills and business know-how so critical to a successful, market-oriented economy, and I congratulate all of you involved in the program on your work thus far.

I would like to make another point on technical assistance, and that is the importance of long-term commitments. Drop-in technical assistance and management training will not cut it. We must be in this for the long haul, and leave footprints for others to follow by helping to train the trainers of the future -- the Eastern Europeans themselves. It is my hope and desire to see ongoing training programs being administered by Eastern European management experts long after active U.S. presence is gone and Western teachers have ridden off into the sunset.

Despite the considerable efforts of the U.S. government and private sector to advance the economic reforms in Eastern Europe, and despite the improved conditions in some countries, much remains to be done. And in my opinion, the single most important thing we can do is to continue to help these countries rapidly expand their entrepreneurial private sectors.

Creating a viable private commercial sector in these former communist economies is a daunting task. State-owned enterprises provide substantial portions of the population not only with jobs, but also with housing, education, health care, recreation and other activities. They often provide ultimate examples of the "company town," and their removal through obsolescence or privatization will create definite hardships for many people.

Now, I will tell you honestly that this former businessman doubts that the vast majority of these large, state-owned dinosaurs will ever convert successfully to private sector firms. Which is not to say that privatization should not be encouraged wherever it has the opportunity to succeed. It must be. In fact, small-scale privatization has had success in some parts of Eastern Europe, particularly with entrepreneurs in service, retail and distribution enterprises like car-rental agencies and music stores. This bottom-up approach should be applauded and encouraged, for we need look no further than our own economy -- where small businesses generate two out of every three new jobs -- to understand the importance of small businesses to the private sector.

One way the countries of Eastern Europe can encourage the development of small and large businesses is by creating an attractive environment for foreign investment. Private investors have made cautious inroads into Eastern Europe, but there are certain things needed to turn these inroads into freeways -- among them: political stability; a predictable tax environment; a stable currency; a transparent and reliable legal system; flexibility for management to cut down on costs; and a willingness by governments to allow the repatriation of earnings.

The companion to foreign investment is expanded trade for the countries of Eastern Europe, which will need access to the large markets of the West. And we should make a point of introducing our business communities to the trade opportunities in the reforming economies.

But the success of increased trade and investment -- indeed, the success of private sector growth -- depends to a great extent on financial sector reform. Unfortunately, the countries of Eastern Europe are characterized by obsolete financial systems. Structural and institutional changes have not kept pace with the progress made on currency stabilization, price reform and trade liberalization. Current banking systems are characterized by large portfolios of non-performing loans to state-owned enterprises, by little expertise in credit assessment, and by ineffective supervision.

But that is not all. Uncertainties over property rights are a continuing problem. Credible bankruptcy procedures are lacking. And effective legal and court systems exist only in embryonic form. These are just some of the many obstacles that will need to be overcome to ensure the successful economic transformation of these countries.

I realize that the picture I have painted tonight of the reform process in Eastern Europe has its dark tones. And from the tenor of my comments, you might think I despair for the success of free market reforms in the former communist countries. That is not so. I am not a pessimist -- just a realist. And realistically, I think that these reforming nations can ultimately make the transition to a free market, or something like it. They have intelligent, literate populations and people with considerable technical and scientific skills. Some of these countries have rich natural resources, and many have strong industrial or mercantile traditions. Finally, all will be freed from the burden of defense spending and the threat of nuclear war which has sapped the energies and productive capacities of these countries for so long.

How, then, should American business assess the opportunities in the former communist economies? My advice is carefully, but with a positive and open mind. By and large, you will not find the opportunities in these markets to be tidy or traditional. And you will discover plenty of flaws in the systems over there that you can use as excuses not to trade or invest.

But look closer and get over there and talk to people. My impression is that, while commerce does not always function smoothly in these reforming economies, there is generally a genuine commitment to free market reform, and plenty of natives with entrepreneurial genes. And, believe me, if you get over there and look around, you will run into an army of Germans, French and other European business people who are not waiting for the choppy seas to calm before they get their boats in the water.

The United States can be proud of the stand-up-and-be-counted leadership role it has played in assisting political and economic reforms in the former Iron Curtain nations. We played the key role in pulling together a $24 billion Western assistance package for the republics of the former Soviet Union. Our government organized the billion dollar currency stabilization fund for Poland. And we negotiated Polish debt reduction with its Western creditors.

The United States has provided substantial humanitarian aid, primarily food and medicine, to the Eastern European countries. We have offered substantial technical assistance ranging from advice on the democratic legislative process and creating free trade union and a free press, to expertise and resources in the environmental, energy, agricultural and economic fields. And in a number of important ways, the American private sector has contributed to the assistance process.

This country has pulled her oar.

But we must recognize the limits of our own assistance. We must realize where Western knowledge and know-how can help these countries -- in business management and banking, trade, stabilization and humanitarian aid. But more importantly, we must realize that the countries of Eastern Europe have to help themselves. We cannot do it for them. And I think it would be pure folly to get into a bidding war with the other nations of the world where we measure our commitment to reform by how many dollars we spend.

Since its earliest days, the United States has stood as a symbol of political and economic freedom for the entire world. We have carried the torch in peace and in war, and through the greatest changes in recorded history. At no other time in history has that torch of freedom burned brighter, or shone on more people, than in the last 12 years. I am proud of this record, and will take my leave of public service knowing that we have set a high standard for those who will follow.

President Bush said to the people of Eastern Europe, "As you undertake political and economic reform, know one thing: America will not fail you in this decisive moment. America will stick with you." The people of Eastern Europe and the former Soviet Union have spoken in favor of political and economic reform. And I, for one, believe we should help them give full voice to their hopes for the future.

Thank you.

# # #

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 9, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 3-YEAR NOTES

Tenders for $15,557 million of 3-year notes, Series R-1995, to be issued November 16, 1992 and to mature November 15, 1995 were accepted today (CUSIP: 912827H54).

The interest rate on the notes will be 5 1/8%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	5.16%	99.904
High	5.18%	99.849
Average	5.17%	99.877

$10,000 was accepted at lower yields.
Tenders at the high yield were allotted 90%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	12,495	12,495
New York	33,761,275	14,879,775
Philadelphia	7,905	7,905
Cleveland	157,015	127,015
Richmond	130,600	119,600
Atlanta	37,945	37,445
Chicago	1,337,070	191,170
St. Louis	28,145	28,145
Minneapolis	5,255	5,250
Kansas City	38,045	38,045
Dallas	4,600	4,600
San Francisco	522,800	30,800
Treasury	75,305	75,190
TOTALS	$36,118,455	$15,557,435

The $15,557 million of accepted tenders includes $530 million of noncompetitive tenders and $15,027 million of competitive tenders from the public.

In addition, $701 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $2,895 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-2058

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 9, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,812 million of 13-week bills to be issued November 12, 1992 and to mature February 11, 1993 were accepted today (CUSIP: 912794A61).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.08%	3.15%	99.221
High	3.10%	3.17%	99.216
Average	3.10%	3.17%	99.216

Tenders at the high discount rate were allotted 73%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	32,665	32,665
New York	31,160,495	10,270,545
Philadelphia	12,940	12,940
Cleveland	43,665	43,665
Richmond	25,715	25,715
Atlanta	30,490	30,220
Chicago	1,804,895	271,195
St. Louis	13,180	13,180
Minneapolis	17,320	17,320
Kansas City	26,585	26,310
Dallas	27,670	27,670
San Francisco	872,160	72,160
Treasury	968,210	968,210
TOTALS	$35,035,990	$11,811,795
Type		
Competitive	$30,128,655	$6,904,460
Noncompetitive	1,586,725	1,586,725
Subtotal, Public	$31,715,380	$8,491,185
Federal Reserve	2,820,610	2,820,610
Foreign Official Institutions	500,000	500,000
TOTALS	$35,035,990	$11,811,795

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AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 9, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,823 million of 26-week bills to be issued November 12, 1992 and to mature May 13, 1993 were accepted today (CUSIP: 912794C77).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.30%	3.40%	98.332
High	3.32%	3.42%	98.322
Average	3.31%	3.41%	98.327

$3,010,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 1%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	20,815	20,815
New York	38,704,990	10,521,495
Philadelphia	7,375	7,375
Cleveland	28,940	28,940
Richmond	23,490	23,490
Atlanta	28,915	28,915
Chicago	1,972,070	250,320
St. Louis	10,760	10,760
Minneapolis	7,670	7,670
Kansas City	29,460	29,460
Dallas	14,665	14,665
San Francisco	908,915	271,815
Treasury	607,580	607,580
TOTALS	$42,365,645	$11,823,300
Type		
Competitive	$37,948,705	$7,406,360
Noncompetitive	979,640	979,640
Subtotal, Public	$38,928,345	$8,386,000
Federal Reserve	2,800,000	2,800,000
Foreign Official Institutions	637,300	637,300
TOTALS	$42,365,645	$11,823,300

NB-2060

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 10, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 9-YEAR, 9-MONTH NOTES

Tenders for $11,300 million of 9-year, 9-month notes, Series B-2002, to be issued November 16, 1992 and to mature August 15, 2002 were accepted today (CUSIP: 912827G55).

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

	Yield	Price
Low	6.92%	96.155
High	6.94%	96.018
Average	6.93%	96.086

Tenders at the high yield were allotted 14%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	7,732	7,732
New York	29,590,874	11,007,114
Philadelphia	9,347	9,347
Cleveland	43,977	22,477
Richmond	35,856	35,856
Atlanta	9,876	9,668
Chicago	991,194	129,249
St. Louis	15,188	15,188
Minneapolis	3,238	3,238
Kansas City	15,866	15,866
Dallas	3,227	3,227
San Francisco	309,253	20,543
Treasury	20,907	20,907
TOTALS	$31,056,535	$11,300,412

The $11,300 million of accepted tenders includes $393 million of noncompetitive tenders and $10,907 million of competitive tenders from the public.

In addition, $800 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

Also, accrued interest of $16.11073 per $1,000 of par must be paid for the period August 15, 1992 to November 16, 1992.

The minimum par amount required for STRIPS is $1,600,000. Larger amounts must be in multiples of that amount.

NB-2061

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
November 10, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 23,600 million, to be issued November 19, 1992. This offering will result in a paydown for the Treasury of about $ 350 million, as the maturing bills are outstanding in the amount of $ 23,959 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, November 16, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91 -day bills (to maturity date) for approximately $ 11,800 million, representing an additional amount of bills dated August 20, 1992 and to mature February 18, 1993 (CUSIP No. 912794 A8 7), currently outstanding in the amount of $ 11,743 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 11,800 million, to be dated November 19, 1992 and to mature May 20, 1993 (CUSIP No. 912794 C8 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 November 19, 1992. In addition to the maturing 13-week and 26-week bills, there are $12,276 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 $ 1,750 million of the original 13-week and 26-week issues. Federal Reserve Banks currently hold $ 2,180 million as agents for foreign and international monetary authorities, and $ 8,592 million for their own account. These amounts represent the combined holdings of such accounts for the three 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 5176-1 (for 13-week series) or Form PD 5176-2 (for 26-week series).

NB-2062

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. 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. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. Adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76 as applicable, 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.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 12, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 30-YEAR BONDS

Tenders for $10,298 million of 30-year bonds to be issued November 16, 1992 and to mature November 15, 2022 were accepted today (CUSIP: 912810EN4).

The interest rate on the bonds will be 7 5/8%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	7.65%	99.707
High	7.66%	99.590
Average	7.66%	99.590

Tenders at the high yield were allotted 66%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	5,083	5,053
New York	24,708,467	10,156,167
Philadelphia	2,607	2,607
Cleveland	5,941	5,941
Richmond	32,908	32,898
Atlanta	7,937	7,917
Chicago	568,404	43,316
St. Louis	6,112	6,112
Minneapolis	4,330	4,330
Kansas City	10,435	10,435
Dallas	4,928	4,928
San Francisco	251,641	11,641
Treasury	6,453	6,453
TOTALS	$25,615,246	$10,297,798

The $10,298 million of accepted tenders includes $322 million of noncompetitive tenders and $9,976 million of competitive tenders from the public.

In addition, $400 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

The minimum par amount required for STRIPS is $1,600,000. Larger amounts must be in multiples of that amount.

Also, accrued interest of $0.21064 per $1,000 of par must be paid for the period November 15, 1992 to November 16, 1992.

NB-2063

TREASURY NEWS
Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
November 13, 1992

Contact: Anne Kelly Williams
(202) 622-2960

Statement by John E. Robson
Deputy Secretary of the Treasury

We read with interest the remarks Governor Clinton made on the cost of the savings and loan cleanup and his suggestion that the Administration's estimates were higher after the election than before. He has been poorly briefed.

If his briefers would look at the facts, they would find that over the past two and one-half years, the Administration has been in the public record with estimates of the savings and loan cleanup and has not increased those estimates. We still believe the total cost of the cleanup will not exceed those estimates, and because of the recent improvement in the thrift industry, may even turn out to be lower, contingent, of course, on Congress voting for the funds to complete the job.

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NB-2064

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

EMBARGOED UNTIL 1:15 PM
PREPARED FOR DELIVERY
November 16, 1992

Contact: Rich Myers
202-622-2930

REMARKS BY
DEPUTY SECRETARY OF THE TREASURY JOHN E. ROBSON
FINANCIAL EXECUTIVES INSTITUTE
NEW YORK, NEW YORK
NOVEMBER 16, 1992

Ladies and gentlemen of the Financial Executives Institute, thank you for inviting me to speak to you today. I have come here to ask that you join me in declaring and waging war on the destructive forces of excessive government regulation -- forces that threaten the competitiveness of American business, weaken our native entrepreneurism, and diminish the nation's economic growth and job creation.

This is an urgent call to bear arms against the marauding bands of "Regu-gnomes." This is a campaign in which we must enlist millions of employers, workers and just plain citizens.

Why do we need to mount this Jihad -- this holy war -- against overregulation? To begin with, economists estimate the annual cost of all regulation at somewhere between $300 and $500 billion, much more than we spend on national defense. That is staggering, and amounts to a hidden regulatory tax of $4,000 to $5,000 a year for every American family.

And the costs of excessive regulation are not remote. On the contrary, they show up in daily life -- in the employer's cost of doing business and competitiveness and, therefore, on how many people he employs and how well he can pay them -- on the price we pay for every product and service we buy, whether in the grocery store or the doctor's office -- on the cost of a home or an education -- on the rate of inflation -- on interest rates and the availability of credit -- and on America's future place in a profoundly changed and fiercely competitive global marketplace.

In the observations and proposals I plan to share with you today, I have tried to bring perspectives drawn from my personal involvement with the regulatory process -- as a federal economic and safety regulator at three different agencies, as the initiator of airline deregulation at the Civil Aeronautics Board, and as the former CEO of a heavily regulated business.

NB-2065

And I hope you financial executives will contemplate our discussion from your perspectives as both victims and perpetrators of regulation. For I believe you can be found in both roles. And certainly financial reporting has proven itself a fertile field for overregulation.

For a minute now, let's take a sampling of some regulatory overkill, just to get a sense of the immense and needless burden imposed on economic growth and entrepreneurial freedom.

Surely among the most egregious examples of regulatory excess are the requirements Congress has just imposed on banks. Mind you, these new regulations are on top of existing regulatory burdens that the banking industry estimates costs around $10 billion a year -- a sum equal to nearly 60 percent of the entire industry's profit in 1991. These new Congressional mandates authorize regulators to set salaries for every bank employee from CEOs to tellers, dictate back office operations, and prescribe duplicative annual federal examinations even if a bank has already been through a state regulatory examination.

Another target of overregulation is executive compensation. There are wholly objectionable proposals to cap executive pay or limit its tax deductibility. And the accounting treatment for stock options -- that is whether or not to reflect some compensation cost for stock options in a company's earnings statement -- has become a hotly contested issue. To me, the answer on stock options is simple. If you make employers run the "cost" of stock options through their earnings statements, you will greatly deter the use of an extremely valuable entrepreneurial incentive, particularly for start-up firms and in the high technology industries. And it is not only the top executives who will go without. Many companies grant options broadly at lower levels. Since the law has long required detailed public disclosure of stock option information, this is not a case of deception. Rather, it is whether the regulatory theology of technically perfect accounting is to prevail over considerations of economic growth and job creation.

Switching fields, I'm certain that everyone in this room has themselves or had a family member contract an illness that required pharmaceutical treatment. Sometimes the prescription drug works wonders. Sometimes it doesn't. But what you may not realize is that often when the drug doesn't do what you and the physician hope, there _is_ a pharmaceutical product that _could_ work already in use for patients in Canada and Europe. But that drug is not available in the United States because of the Food and Drug Administration's timid, and outrageously slow drug approval process.

These examples are but a tiny fragment of those we might select from the wax museum of regulatory horrors. But they help illustrate the range, depth, and costs associated with excessive regulation. And can you just imagine if all the time, energy, cost, lawsuits and paperwork consumed by overregulation were devoted to creating economic growth? What an even more powerful job machine this country would be!

As it turns out, America is not the only nation with self-inflicted wounds of overregulation. Indeed, one can trace the pernicious contribution of excessive regulation to the decline of a number of once-great civilizations: Egypt; Greece; Rome; the Islamic empire of Moorish times; and Columbus' Spain, to name but a few. One text describes regulation in Pharonic Egypt as follows: "Control took on frightening proportions. There was a whole army of inspectors. There were nothing but inventories, censuses of men and animals, land surveys, [and] estimations of harvests to come."

In fact, the perils of government regulation were foreseen by the Founding Fathers of this Republic. Listen to James Madison in the Federalist Papers: "What prudent merchant will hazard his fortunes in any new branch of commerce when he knows not but that his plans may be rendered unlawful before they can be executed?"

But if the lessons of history teach us that excessive regulation is economically life-threatening, and if the very architects of the American political and economic systems warned against it, how and why have we come to be mired in the current debilitating degree of overregulation? And how have these swarms of regulations and regulators arisen, locust-like, to devour the crops of productivity and economic growth.

Perhaps we can start to find some answers by identifying some of the principal reasons for the prolific growth of regulation. These include:

- The fact that regulation, by and large, has its inspiration in laudable motives and so acquires a certain popular political force and immunity from attack;

- A Congress dominated during the last half-century by majorities committed to a "big-government-can-fix-it" philosophy and the creation of a risk-free world;

- The near total absence of any significant business experience on the part of regulatory bureaucrats, Members of Congress, regulatory activists, and the regulation-infatuated media;

- o The influence of lawyers, accountants and other professional technicians who feast at the table of regulatory growth and complexity;

- o The stealthy nature of regulatory growth, which tends to occur non-violently, one new regulatory requirement at a time, until the accumulated regulatory burdens become suffocating; and

- o The American compulsion to rush in and correct every problem -- and its companion -- the notion that for every problem there is a neat and tidy man-made solution.

We must also understand the dynamics of the regulatory process. Regulatory behavior is strongly driven by what the regulators perceive to be politically correct, and by an overwhelming desire to protect their own backsides from criticism by the politicians in power, the media, or the regu-loving activists. Believe me, regulators don't ignore what happens on C-SPAN. For example, while a number of factors contributed to the recent credit crunch in bank lending, one definite cause is the overzealousness of bank examiners, cowed by the S&L experience and fearful of being summoned to a Congressional hearing to be flogged for their alleged regulatory lapses.

These same behavior dynamics drive the regulators to take a no risk approach that stops decisions and actions from occurring, or slows them down, if they present any risk, even if significant benefits are also present (for example, the approval of a new life-saving drug). They also induce regulators to take the most stringent positions in implementing statutorily mandated regulation, even where there is latitude to adopt a more balanced approach. It is only the mistakes of <u>under</u>-regulation that are counted politically. A regulator would rather have a loan denied than to see one made that might later go sour. Loans denied aren't counted. Neither are lives not saved by drugs trapped in the FDA approval process, nor jobs lost by the imposition of various regulatory burdens.

So, while there may be some natural-born tyrants who find being a regulator a good opportunity to throw their weight around, the force that most drives regulators to excess is the fear of being caught on the wrong side of the risk line -- the instinct for self preservation, not oppression.

But it is simply not acceptable to stand by and permit excessive regulation to continue to expand its smothering sprawl. And I am not just talking about Federal regulation. Excessive regulation is occurring at state and local government levels as well.

And, while I believe that the lion's share of the blame for overregulation rests with the regu-centrics in Congress and other legislatures, I cannot absolve the Executive Branch from a share of the responsibility. That is why the Bush Administration took a stand and has had some successes under the President's regulatory moratorium and from the work of the Vice President's Council on Competitiveness. For example, the Treasury Department alone found opportunities for regulatory relief that will save nearly a billion dollars annually. But let me tell you, there's plenty more gold in them 'thar regulatory hills.

So what can we do about it? Well, I have some suggestions.

The first and essential task is to organize a national Coalition for Common Sense Regulation, a diverse and powerful political action and public information group concerned about economic growth and dedicated to stamping out excessive regulation. If powerful coalitions can be mobilized on issues such as drunken driving, Aids, muscular dystrophy, smoking, the environment, and animal rights, it surely must be possible to combat overregulation. A companion task, of course, is to find some political champions for this cause -- senators, congressmen, state legislators, governors and mayors -- so that the battle is fought across a broad political front that reaches the breeding grounds of overregulation.

Then this new coalition and its political champions and media allies must embark on a massive public and political education campaign directed at three central issues.

First, we must educate people about the real costs and effects of excessive regulation in their daily lives, as I have described before.

Second, we must dissipate the misleading and polarizing notion, so successfully propagandized by the Regu-gnomes, that the population divides neatly into two groups, one of "consumers" (whose interests are, not surprisingly, protected by regulatory activists), and another group whose aim (it is alleged) is to exploit and to harm "consumers." This is, of course, preposterous. We are all consumers. And nearly every one of us is also a producer, a job holder, a user of nature's resources, and a potential prey to disease. This multitude of roles that every one of us plays, and the range of sometimes conflicting interests that require balancing and trade-off needs to be clearly grasped and felt by the public. If the regulatory activists continue to be allowed to scissor the universe into "consumers" and the "enemies of consumers," they will make it very difficult for the foes of excessive regulation to regain the moral and political high ground.

Third, we must give perspective to the idea that the people are "entitled" to -- and government must use its powers to provide -- a risk-free world. That is a powerful tool in the hands of the regu-centrics. No one argues, of course, that we ought not take reasonable precautions or that we should allow excessive, preventable risk. But there is a place between excessive risk and excessive regulation. And it is essential that a balanced regulation of risks that measures costs and benefits, be portrayed, perceived, and politically accepted, not as inhuman or antisocial conduct, but as virtuous behavior. After all, a world free of risk is also a world free of progress.

Now, having formed our national coalition and mounted an attack on some of the thematic underpinnings of excessive regulation, we need some concrete, systemic antidotes to overregulation. This is not a problem that should be addressed by tinkering with one bad regulation at a time. You must attack the system. So here are some ideas for what we might call a Regulatory Bill of Rights.

First, make it more difficult for legislators to impose regulatory requirements. For example, a super-majority could be required for any new regulatory legislation. And suppose, before Congress acts on regulatory legislation, the Joint Economic Committee must publish an analysis showing whether the annual benefits of the new regulation exceed its costs. We might also require calculation of the overall cost of regulation already existing in the area where the new regulatory legislation is proposed to show the marginal impact of the new burden.

Now we should also hold each member of Congress, and other legislators, accountable by requiring their regulatory votes to be on the record. This information could then be used in a public rating system for legislators, governors, cabinet officers and other regulatory officials, just as the Americans for Democratic Action, the AFL-CIO and the National Rifle Association do for their agendas.

Next, suppose we require every Federal regulatory agency to establish a minimum risk threshold below which it will not impose regulation. For example, the Environmental Protection Agency might not regulate an activity below the point of reducing the risk of cancer to the risk of a person being struck by lightning.

Regulatory agencies could also be required to publish a cost-benefit analysis with every proposed regulation and solicit comment on that analysis as well as other aspects of the proposal. Agencies should also adopt an overall cost of regulation budget. The agency could not impose any regulation that resulted in costs exceeding the budget unless they offset the increased cost by reducing regulation in other areas.

Now, what about a whistle-blower act that invites people who feel aggrieved by regulatory actions to appeal those actions to the head of the agency in an informal way, and obliges the senior regulatory bureaucrats to promptly investigate and respond to the alleged regulatory excess. You might need to protect the complainers by creating severe punishments for any regulator who was found to have sought retribution against those who complained.

Finally, we need to get the legal system reformed to deter the welter of senseless and costly lawsuits. And we need to pay more attention to the regulatory philosophy of men and women considered for judicial appointments. Certainly we do not want on the bench judges who are creating new opportunities for regulatory mischief by expansive interpretations of the laws.

Ladies and gentlemen, there is no reason why this country should continue to damage itself by excessive regulation. We can arrest this trend if we muster the political will and take resolute action.

I have offered some ideas today. They may or may not be the best ones. And I am sure that there are many others who can contribute their ideas and energies to mounting an aggressive and comprehensive campaign against excessive regulation. We must do this.

I ask you not to leave this room today without a commitment to help mobilize against the cancer of overregulation that is gnawing at America's economic entrails.

This is a battle we can win. And I ask you to join me in it.

Thank you.

# # #

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 16, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,848 million of 13-week bills to be issued November 19, 1992 and to mature February 18, 1993 were accepted today (CUSIP: 912794A87).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.12%	3.19%	99.211
High	3.14%	3.21%	99.206
Average	3.13%	3.20%	99.209

Tenders at the high discount rate were allotted 61%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	28,165	28,165
New York	28,884,650	10,262,650
Philadelphia	9,840	9,840
Cleveland	32,355	32,355
Richmond	392,360	221,460
Atlanta	42,950	33,200
Chicago	1,794,560	236,060
St. Louis	14,035	14,035
Minneapolis	4,875	4,875
Kansas City	25,505	25,505
Dallas	14,230	14,230
San Francisco	937,140	87,010
Treasury	878,420	878,420
TOTALS	$33,059,085	$11,847,805
Type		
Competitive	$28,695,445	$7,484,165
Noncompetitive	1,416,455	1,416,455
Subtotal, Public	$30,111,900	$8,900,620
Federal Reserve	2,692,185	2,692,185
Foreign Official Institutions	255,000	255,000
TOTALS	$33,059,085	$11,847,805

NB-2066

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 16, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,919 million of 26-week bills to be issued November 19, 1992 and to mature May 20, 1993 were accepted today (CUSIP: 912794C85).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.36%	3.47%	98.301
High	3.37%	3.48%	98.296
Average	3.37%	3.48%	98.296

Tenders at the high discount rate were allotted 29%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	21,145	21,145
New York	35,557,190	10,774,925
Philadelphia	8,260	8,260
Cleveland	22,385	22,385
Richmond	25,720	25,720
Atlanta	44,495	26,035
Chicago	1,450,400	140,690
St. Louis	14,025	14,025
Minneapolis	4,830	4,830
Kansas City	28,060	28,060
Dallas	12,475	12,475
San Francisco	961,860	266,610
Treasury	573,740	573,740
TOTALS	$38,724,585	$11,918,900
Type		
Competitive	$34,377,425	$7,571,740
Noncompetitive	952,860	952,860
Subtotal, Public	$35,330,285	$8,524,600
Federal Reserve	2,700,000	2,700,000
Foreign Official Institutions	694,300	694,300
TOTALS	$38,724,585	$11,918,900

NB-2067

AUCTION RESULTS
PUBLIC DEBT NEWS
Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
November 17, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $14,255 million of 52-week bills to be issued November 19, 1992 and to mature November 18, 1993 were accepted today (CUSIP: 912794E59).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.60%	3.75%	96.360
High	3.61%	3.76%	96.350
Average	3.61%	3.76%	96.350

$60,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 86%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	11,155	11,155
New York	31,693,595	13,679,935
Philadelphia	6,735	6,735
Cleveland	10,700	10,700
Richmond	9,750	9,750
Atlanta	17,020	10,020
Chicago	1,764,685	152,775
St. Louis	8,630	7,930
Minneapolis	3,575	3,575
Kansas City	10,525	10,525
Dallas	5,055	5,055
San Francisco	672,030	150,330
Treasury	196,190	196,190
TOTALS	$34,409,645	$14,254,675
Type		
Competitive	$30,452,560	$10,297,590
Noncompetitive	367,085	367,085
Subtotal, Public	$30,819,645	$10,664,675
Federal Reserve	3,200,000	3,200,000
Foreign Official Institutions	390,000	390,000
TOTALS	$34,409,645	$14,254,675

NB-2068

TREASURY NEWS

Department of the Treasury | Washington, D.C. | Telephone 202-622-2960

FOR IMMEDIATE RELEASE
November 17, 1992

Contact: Keith Carroll
(202) 622-2930

TREASURY ANNOUNCES PENALTY AGAINST JACK'S QUICK CASH, INC.

The Department of the Treasury announced today that Jack's Quick Cash, Inc., a check cashing service in Orlando, Florida, has agreed to pay a civil money penalty of $18,000 in settlement of allegations that it failed to report to the Internal Revenue Service (IRS) currency transactions as required by the Bank Secrecy Act (BSA). The violations involved the cashing of a check in an amount in excess of $10,000, by one person, at one time, in a single day.

Peter K. Nunez, Assistant Secretary for Enforcement, who announced the penalty said, "The penalty represents a complete settlement of Jack's Quick Cash's BSA civil liability for these violations and should encourage all financial institutions to implement effective Bank Secrecy Act compliance programs." This case was developed through a BSA compliance examination conducted by the Internal Revenue Service.

In recognition of the importance of complying with the Act, and before being advised of the existence of previous problems, Jack's installed a computer system which captures information on transactions reportable under the BSA. Subsequent IRS examinations of Jack's have indicated dramatic improvement in BSA compliance. The Treasury has no evidence that Jack's or any of its employees or officers engaged in any BSA criminal activity in connection with these reporting violations, nor was it under criminal investigation for these violations.

The collection of a civil money penalty from Jack's Quick Cash, Inc. for BSA violations reflects Treasury's continuing and enhanced effort to enforce BSA compliance by nonbank financial institutions such as check cashers, currency dealers and exchangers, issuers and redeemers of money orders and traveler's checks, and transmitters of funds.

The BSA requires banks and other nonbank financial institutions to keep certain records, to file currency transaction reports with the Treasury on all cash transactions by or through the financial institution in excess of $10,000, and, under some circumstances, to file reports on the international transportation of currency, traveler's checks, and other monetary instruments in bearer form. The purpose of the reports and records required under the BSA is to assist the government's efforts in criminal, tax and regulatory investigations and proceedings.

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NB-2069

TREASURY NEWS

Department of the Treasury   Washington, D.C.   Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
November 17, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 23,600 million, to be issued November 27, 1992. This offering will provide about $ 300 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $ 23,297 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, November 23, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

90 -day bills (to maturity date) for approximately $ 11,800 million, representing an additional amount of bills dated August 27, 1992 and to mature February 25, 1993 (CUSIP No. 912794 A9 5), currently outstanding in the amount of $ 11,662 million, the additional and original bills to be freely interchangeable.

181 -day bills for approximately $ 11,800 million, to be dated November 27, 1992 and to mature May 27, 1993 (CUSIP No. 912794 C9 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 November 27, 1992. 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 $ 1,827 million as agents for foreign and international monetary authorities, and $ 5,788 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 5176-1 (for 13-week series) or Form PD 5176-2 (for 26-week series).

NB-2070

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. 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. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. Adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76 as applicable, 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.

4/17/92

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

For Immediate Release November 18, 1992

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of October 1992.

As indicated in this table, U.S. reserve assets amounted to 74,207 million at the end of October 1992, down from 78,527 million in September 1992.

U.S. Reserve Assets
(in millions of dollars)

End of Month	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/3/	Foreign Currencies 4/	Reserve Position in IMF 2/
1992					
September	78,527	11,059	12,111	45,579	9,778
October	74,207	11,060	11,561	42,325	9,261

1/ Valued at $42.2222 per fine troy ounce.

2/ Beginning July 1974, the IMF adopted a technique for valuing the SDR based on weighted average of exchange rates for the currencies of selected member countries. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.

3/ Includes allocations of SDRs by the IMF plus transactions in SDRs.

4/ Valued at current market exchange rates.

NB-2071

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
November 18, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES TOTALING $25,750 MILLION

The Treasury will auction $15,000 million of 2-year notes and $10,750 million of 5-year notes to refund $13,332 million of securities maturing November 30, 1992, and to raise about $12,425 million new cash. The $13,332 million of maturing securities are those held by the public, including $1,496 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

Both the 2-year and 5-year note auctions will be conducted in the single-price auction format. All competitive and non-competitive awards will be at the highest yield of accepted competitive tenders.

The $25,750 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.

In addition to the public holdings, Federal Reserve Banks, for their own accounts, hold $520 million of the maturing securities that may be refunded by issuing additional amounts of the new securities.

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

oOo

Attachment

NB-2072

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC

OF 2-YEAR AND 5-YEAR NOTES TO BE ISSUED NOVEMBER 30, 1992

November 18, 1992

<u>Amount Offered to the Public</u> ...	$15,000 million	$10,750 million
<u>Description of Security</u>:		
Term and type of security	2-year notes	5-year notes
Series and CUSIP designation ...	Series AG-1994 (CUSIP No. 912827 H7 0)	Series T-1997 (CUSIP No. 912827 H8 8)
Maturity date	November 30, 1994	November 30, 1997
Interest rate	To be determined based on the highest accepted bid	To be determined based on the highest accepted bid
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	May 31 and November 30	May 31 and November 30
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 up to $5,000,000	Accepted in full up to $5,000,000
Accrued interest payable by investor	None	None
<u>Key Dates</u>:		
Receipt of tenders	Monday, November 23, 1992	Tuesday, November 24, 1992
a) noncompetitive	prior to 11:00 a.m., EST	prior to 12:00 noon, EST
b) competitive	prior to 12:00 noon, EST	prior to 1:00 p.m., EST
Settlement (final payment due from institutions):		
a) funds immediately available to the Treasury ...	Monday, November 30, 1992	Monday, November 30, 1992
b) readily-collectible check ...	Wednesday, November 25, 1992	Wednesday, November 25, 1992

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 23, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $15,010 million of 2-year notes, Series AG-1994, to be issued November 30, 1992 and to mature November 30, 1994 were accepted today (CUSIP: 912827H70).

The interest rate on the notes will be 4-5/8%. All competitive tenders at yields lower than 4.72% were accepted in full. Tenders at 4.72% were allotted 35%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 4.72%, with an equivalent price of 99.821. The median yield was 4.70%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 4.68%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	15,525	15,525
New York	41,388,890	14,039,640
Philadelphia	21,315	19,305
Cleveland	26,500	26,500
Richmond	193,800	96,800
Atlanta	55,615	25,615
Chicago	1,823,755	307,205
St. Louis	39,215	39,215
Minneapolis	18,020	17,370
Kansas City	54,285	53,285
Dallas	5,870	5,870
San Francisco	744,980	129,875
Treasury	233,940	233,940
TOTALS	$44,621,710	$15,010,145

The $15,010 million of accepted tenders includes $652 million of noncompetitive tenders and $14,358 million of competitive tenders from the public.

In addition, $498 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $370 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-2073

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 23, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,893 million of 13-week bills to be issued November 27, 1992 and to mature February 25, 1993 were accepted today (CUSIP: 912794A95).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.26%	3.33%	99.185
High	3.27%	3.34%	99.183
Average	3.27%	3.34%	99.183

Tenders at the high discount rate were allotted 76%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	29,880	29,880
New York	30,828,615	10,091,750
Philadelphia	8,330	8,330
Cleveland	38,440	38,440
Richmond	83,665	33,665
Atlanta	73,395	41,155
Chicago	1,929,810	256,810
St. Louis	14,420	14,420
Minneapolis	8,345	8,345
Kansas City	29,835	29,835
Dallas	18,660	18,660
San Francisco	1,169,740	444,540
Treasury	876,930	876,930
TOTALS	$35,110,065	$11,892,760
Type		
Competitive	$30,358,035	$7,140,730
Noncompetitive	1,419,330	1,419,330
Subtotal, Public	$31,777,365	$8,560,060
Federal Reserve	2,888,400	2,888,400
Foreign Official Institutions	444,300	444,300
TOTALS	$35,110,065	$11,892,760

NB-2074

AUCTION RESULTS
PUBLIC DEBT NEWS
Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
November 23, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,827 million of 26-week bills to be issued November 27, 1992 and to mature May 27, 1993 were accepted today (CUSIP: 912794C93).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.44%	3.55%	98.270
High	3.45%	3.56%	98.265
Average	3.45%	3.56%	98.265

Tenders at the high discount rate were allotted 83%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	18,375	18,375
New York	30,513,340	10,746,880
Philadelphia	6,185	6,185
Cleveland	109,565	96,815
Richmond	22,505	22,505
Atlanta	48,750	44,330
Chicago	1,725,625	129,205
St. Louis	8,370	8,370
Minneapolis	7,665	7,665
Kansas City	23,565	23,565
Dallas	11,980	11,980
San Francisco	579,755	236,915
Treasury	473,880	473,880
TOTALS	$33,549,560	$11,826,670
Type		
Competitive	$28,679,275	$6,956,385
Noncompetitive	814,285	814,285
Subtotal, Public	$29,493,560	$7,770,670
Federal Reserve	2,900,000	2,900,000
Foreign Official Institutions	1,156,000	1,156,000
TOTALS	$33,549,560	$11,826,670

NB-2075

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 24, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $10,753 million of 5-year notes, Series T-1997, to be issued November 30, 1992 and to mature November 30, 1997 were accepted today (CUSIP: 912827H88).

The interest rate on the notes will be 6%. All competitive tenders at yields lower than 6.07% were accepted in full. Tenders at 6.07% were allotted 34%. All noncompetitive and sucessful competitive bidders were allotted securities at the yield of 6.07%, with an equivalent price of 99.702. The median yield was 6.02%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 5.95%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	26,132	26,132
New York	25,107,469	10,089,109
Philadelphia	12,263	12,263
Cleveland	120,736	120,736
Richmond	82,342	82,342
Atlanta	36,741	36,731
Chicago	1,082,476	154,376
St. Louis	27,415	27,415
Minneapolis	11,666	11,666
Kansas City	30,417	30,417
Dallas	10,281	10,281
San Francisco	531,320	98,320
Treasury	53,757	53,707
TOTALS	$27,133,015	$10,753,495

The $10,753 million of accepted tenders includes $601 million of noncompetitive tenders and $10,152 million of competitive tenders from the public.

In addition, $598 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $150 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-2076

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
November 24, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 23,600 million, to be issued December 3, 1992. This offering will provide about $ 300 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $ 23,290 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, November 30, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91 -day bills (to maturity date) for approximately $ 11,800 million, representing an additional amount of bills dated September 3, 1992 and to mature March 4, 1993 (CUSIP No. 912794 B2 9), currently outstanding in the amount of $ 11,615 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately $ 11,800 million, representing an additional amount of bills dated June 4, 1992 and to mature June 3, 1993 (CUSIP No. 912794 D2 7), currently outstanding in the amount of $ 14,296 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 December 3, 1992. 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 $ 1,373 million as agents for foreign and international monetary authorities, and $ 5,314 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 5176-1 (for 13-week series) or Form PD 5176-2 (for 26-week series).

NB-2077

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. 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. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. Adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76 as applicable, 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.

4/17/92

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
November 25, 1992

CONTACT: DESIREE TUCKER-SORINI
(202) 622-2920

Statement by Treasury Secretary Nicholas F. Brady

The 3.9 percent third-quarter increase in GDP announced today, and other recent economic indicators, are welcome news for the American economy.

We have now had six straight quarters of economic growth. In 1992 alone, the average growth rate is 2.8 percent, higher than the average growth rate of 2.5 percent for the past 25 years.

Through prudent management, President Bush has guided the American economy through a global recession and economic restructuring.

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NB-2078

federal financing bank NEWS
WASHINGTON, D.C. 20220

Press 202-622-2960
FFB 202-622-2450

For Immediate Release

November 27, 1992

FEDERAL FINANCING BANK ACTIVITY

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of October 1992.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $159.9 billion on October 31, 1992, posting a decrease of $4,523.4 million from the level on September 30, 1992. This net change was the result of decreases in holdings of agency debt of $4,449.2 million, in holdings of agency assets of $0.1 million, and in holdings of agency-guaranteed loans of $74.1 million. FFB made 42 disbursements in October.

Attached to this release are tables presenting FFB October loan activity and FFB holdings as of October 31, 1992.

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FEDERAL FINANCING BANK
OCTOBER 1992 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (not semi-annual)
AGENCY DEBT					
FEDERAL DEPOSIT INSURANCE CORPORATION					
Note No. 0007					
Advance #1	10/1	$10,160,000,000.00	1/4/93	2.881%	
RESOLUTION TRUST CORPORATION					
Note No. 0016					
Advance #1	10/1	44,979,021,805.50	1/4/93	2.881%	
Advance #2	10/5	2,000,000,000.00	1/4/93	2.820%	
GOVERNMENT-GUARANTEED LOANS					
RHODE ISLAND DEPOSITORS ECONOMIC PROTECTION CORPORATION					
*DEPCO	10/1	103,968,797.90	1/4/93	2.881%	
GENERAL SERVICES ADMINISTRATION					
Foley Square Courthouse	10/23	5,734,790.00	12/11/95	5.112%	
Memphis IRS Service Center	10/23	371,876.21	1/3/95	4.528%	
Miami Law Enforcement	10/28	1,013,413.00	7/1/93	3.479%	
Foley Office Building	10/30	5,420,349.00	12/11/95	5.107%	
ICTC Building	10/30	5,054,064.30	11/16/92	3.138%	
GSA Refinancing Loan #1	10/30	33,995,000.00	5/1/00	5.852%	
GSA Refinancing Loan #2	10/30	25,785,000.00	5/1/00	5.869%	
GSA Refinancing Loan #3	10/30	12,860,000.00	11/1/00	5.885%	
GSA Refinancing Loan #4	10/30	10,980,000.00	11/1/00	5.879%	
GSA Refinancing Loan #5	10/30	17,720,000.00	11/1/00	5.884%	
RURAL ELECTRIFICATION ADMINISTRATION					
Oglethorpe Electric #335	10/1	26,386,000.00	1/2/24	7.145%	7.082% qtr.
Southern Mississippi #090A	10/9	4,038,000.00	1/3/95	4.055%	4.035% qtr.
Southern Maryland #352	10/13	1,810,000.00	12/31/25	7.338%	7.272% qtr.
@Tri-State #250	10/19	5,000,000.00	1/3/23	7.274%	7.209% qtr.
@Tri-State #365	10/19	7,659,855.53	12/31/13	6.886%	6.828% qtr.
@Tri-State #365	10/19	310,511.06	12/31/13	6.886%	6.828% qtr.
@Tri-State #365	10/19	2,902,755.53	12/31/13	6.886%	6.828% qtr.
@Tri-State #365	10/19	2,124,733.41	12/31/13	6.886%	6.828% qtr.
@Tri-State #365	10/19	1,033,395.68	12/31/15	6.977%	6.917% qtr.
@Tri-State #365	10/19	1,241,351.68	12/31/15	6.977%	6.917% qtr.
@Tri-State #365	10/19	198,055.55	12/31/15	6.977%	6.917% qtr.
@Tri-State #365	10/19	27,658.00	12/31/15	6.977%	6.917% qtr.
@Tri-State #365	10/19	14,571,123.66	12/31/15	6.977%	6.917% qtr.
@Tri-State #365	10/19	1,847,170.24	1/3/17	7.021%	6.960% qtr.
@Tri-State #365	10/19	6,613,765.92	1/3/17	7.021%	6.960% qtr.
@Tri-State #365	10/19	1,540,641.70	1/3/17	7.021%	6.960% qtr.
@Tri-State #365	10/19	913,232.44	1/3/17	7.021%	6.960% qtr.
@Tri-State #365	10/19	997,234.08	1/3/17	7.021%	6.960% qtr.
@Tri-State #365	10/19	1,061,433.20	1/3/17	7.021%	6.960% qtr.
@Tri-State #365	10/19	573,081.10	1/3/17	7.021%	6.960% qtr.
@Tri-State #365	10/19	1,004,444.46	1/3/17	7.021%	6.960% qtr.
@Tri-State #365	10/19	484,444.34	1/3/17	7.021%	6.960% qtr.

*maturity extension
@interest rate buydown

FEDERAL FINANCING BANK
OCTOBER 1992 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (not semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (CONTINUED)					
@Tri-State #365	10/19	$ 1,333,333.28	1/3/17	7.021%	6.960% qtr.
@Tri-State #365	10/19	1,539,878.14	1/2/18	7.065%	7.004% qtr.
@Tri-State #365	10/19	9,010,741.56	1/2/18	7.065%	7.004% qtr.
@Tri-State #365	10/19	3,251,151.30	1/2/18	7.065%	7.004% qtr.
@Tri-State #365	10/19	4,374,146.32	1/2/18	7.065%	7.004% qtr.
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-93-1	10/30	184,942,247.51	1/29/93	3.132%	

@interest rate buydown

FEDERAL FINANCING BANK
(in millions)

Program	October 31, 1992	September 30, 1992	Net Change 10/1/92-10/31/92	FY '93 Net Change 10/1/92-10/31/92
Agency Debt:				
Export-Import Bank	$ 7,692.5	$ 7,692.5	$ 0.0	$ 0.0
Federal Deposit Insurance Corporation	10,160.0	10,160.0	0.0	0.0
NCUA-Central Liquidity Fund	0.0	0.0	0.0	0.0
Resolution Trust Corporation	42,086.7	46,535.9	-4,449.2	-4,449.2
Tennessee Valley Authority	7,175.0	7,175.0	0.0	0.0
U.S. Postal Service	9,903.4	9,903.4	0.0	0.0
sub-total*	77,017.6	81,466.8	-4,449.2	-4,449.2
Agency Assets:				
Farmers Home Administration	42,979.0	42,979.0	0.0	0.0
DHHS-Health Maintenance Org.	55.2	55.2	0.0	0.0
DHHS-Medical Facilities	64.3	64.3	0.0	0.0
Rural Electrification Admin.-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	4.0	4.1	-0.1	-0.1
sub-total*	47,701.4	47,701.5	-0.1	-0.1
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	4,337.9	4,344.3	-6.3	-6.3
DEd.-Student Loan Marketing Assn.	4,790.0	4,820.0	-30.0	-30.0
DEPCO-Rhode Island	104.0	125.0	-21.0	-21.0
DHUD-Community Dev. Block Grant	170.2	174.4	-4.2	-4.2
DHUD-Public Housing Notes +	1,853.2	1,853.2	0.0	0.0
General Services Administration +	895.8	776.9	118.9	118.9
DOI-Guam Power Authority	27.0	27.0	0.0	0.0
DOI-Virgin Islands	23.7	23.7	0.0	0.0
DON-Ship Lease Financing	1,576.2	1,576.2	0.0	0.0
Rural Electrification Administration	18,171.9	18,143.0	28.9	28.9
SBA-Small Business Investment Cos.	134.4	143.4	-9.0	-9.0
SBA-State/Local Development Cos.	629.3	633.7	-4.4	-4.4
TVA-Seven States Energy Corp.	2,269.9	2,416.8	-146.9	-146.9
DOT-Section 511	19.1	19.1	0.0	0.0
DOT-WMATA	177.0	177.0	0.0	0.0
sub-total*	35,179.6	35,253.6	-74.1	-74.1
grand-total*	$ 159,898.5	$ 164,421.9	$ -4,523.4	$ -4,523.4

*figures may not total due to rounding
+does not include capitalized interest

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 12:00 NOON
November 27, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY OFFERS $16,000 MILLION OF 49-DAY CASH MANAGEMENT BILLS

The Department of the Treasury, by this public notice, invites tenders for approximately $16,000 million of 49-day Treasury bills to be issued December 3, 1992, representing an additional amount of bills dated July 23, 1992, maturing January 21, 1993 (CUSIP No. 912794 A3 8).

Competitive tenders will be received at all Federal Reserve Banks and Branches prior to 1:00 p.m., Eastern time, Tuesday, December 1, 1992. Each bid for the issue must be for a minimum amount of $1,000,000. Bids over $1,000,000 must be in multiples of $1,000,000. Bids must show the rate desired, expressed on a bank discount rate basis with two decimals, e.g., 7.10%. Fractions must not be used.

Noncompetitive bids will not be accepted. Tenders will not be received at the Department of the Treasury, Washington, D. C.

The bills will be issued on a discount basis under competitive bidding, and at maturity their par amount will be payable without interest. The 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 of the Federal Reserve Banks and Branches. Additional amounts of the bills may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account. An institution submitting a bid for customers must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount bid at each rate. Customer bids may not be aggregated by rate on the customer list. All bids submitted on behalf of trust estates must provide, for each trust estate, the name or title of the trustee(s), a reference to the document creating the trust with the date of execution, and the employer identification number of the trust.

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A single bidder must report its net long position if the total of all its bids for the security being offered and its position in the security equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the security being auctioned, in "when issued" trading, and in futures and forward contracts, as well as holdings of outstanding bills with the same maturity date and CUSIP number as the new offering. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Full payment for the par amount of bills bid for must accompany tenders from all others.

Public announcement will be made by the Department of the Treasury of the amount and range of accepted bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder will pay the price equivalent to the discount rate bid. 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. Those submitting tenders will be advised of the acceptance or rejection of their bids. The Secretary of the Treasury expressly reserves the right to accept or reject any or all bids, in whole or in part, and the Secretary's action shall be final.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided by a Federal Reserve Bank or Branch to bidders who have accepted bids, whether for their own account or for the account of customers. No later than 12:00 noon local time on the day following the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities must furnish, no later than 10:00 a.m. local time on the day following the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. A depository institution or government securities broker/dealer submitting a bid for a customer is responsible for notifying its customer of this requirement if the customer is awarded $500 million or more as a result of bids submitted by the depository institution or the broker/dealer.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

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 may be obtained from any Federal Reserve Bank or Branch.

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AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
November 30, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,851 million of 13-week bills to be issued December 3, 1992 and to mature March 4, 1993 were accepted today (CUSIP: 912794B29).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.27%	3.34%	99.173
High	3.31%	3.39%	99.163
Average	3.31%	3.39%	99.163

Tenders at the high discount rate were allotted 54%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	24,090	24,090
New York	31,654,465	10,619,565
Philadelphia	14,400	14,400
Cleveland	33,020	33,020
Richmond	82,865	57,565
Atlanta	54,760	54,760
Chicago	1,556,145	87,445
St. Louis	10,415	10,415
Minneapolis	7,180	7,180
Kansas City	28,405	28,405
Dallas	19,350	19,350
San Francisco	651,445	78,445
Treasury	816,150	816,150
TOTALS	$34,952,690	$11,850,790
Type		
Competitive	$30,713,095	$7,611,195
Noncompetitive	1,315,965	1,315,965
Subtotal, Public	$32,029,060	$8,927,160
Federal Reserve	2,513,630	2,513,630
Foreign Official Institutions	410,000	410,000
TOTALS	$34,952,690	$11,850,790

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AUCTION RESULTS
PUBLIC DEBT NEWS
Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
November 30, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,802 million of 26-week bills to be issued December 3, 1992 and to mature June 3, 1993 were accepted today (CUSIP: 912794D27).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.44%	3.55%	98.261
High	3.47%	3.58%	98.246
Average	3.46%	3.57%	98.251

Tenders at the high discount rate were allotted 55%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	17,580	17,580
New York	26,405,555	10,673,055
Philadelphia	5,865	5,865
Cleveland	28,465	28,465
Richmond	23,140	23,140
Atlanta	52,745	52,745
Chicago	1,468,640	272,390
St. Louis	12,940	12,940
Minneapolis	6,865	6,865
Kansas City	28,155	28,155
Dallas	13,810	13,810
San Francisco	610,960	138,460
Treasury	528,735	528,735
TOTALS	$29,203,455	$11,802,205
Type		
Competitive	$24,991,215	$7,589,965
Noncompetitive	842,440	842,440
Subtotal, Public	$25,833,655	$8,432,405
Federal Reserve	2,800,000	2,800,000
Foreign Official Institutions	569,800	569,800
TOTALS	$29,203,455	$11,802,205

NB-2082

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
December 1, 1992

CONTACT: Scott Dykema
(202) 622-2960

TREASURY REPORT SAYS CHINA, TAIWAN MANIPULATE CURRENCY RATES AGAINST U.S. DOLLAR

The Treasury Department, in a new report to Congress, concludes that both China and Taiwan continue to manipulate their foreign exchange rate systems to prevent effective balance of payments adjustment and to gain an unfair competitive edge.

Treasury's annual International Economic and Exchange Rate Policy report to Congress also reviews the outlook for the world economy and the U.S. current account position as well as recent developments in foreign exchange markets.

The annual International Economic and Exchange Rate Policy report is required by the 1988 Omnibus Trade and Competitiveness Act. Section 3004 of that law requires the Treasury Secretary to consider whether countries manipulate their currencies against the dollar for the purpose of preventing effective balance of payments adjustment or gaining unfair competitive advantage in international trade.

Treasury has concluded that China, which has a rapidly growing trade surplus with the United States, is manipulating its currency. "Chinese authorities continue to frustrate effective balance of payments adjustment by tightly regulating exchange markets. Given China's large external surpluses, such regulation is unwarranted," said Olin L. Wethington, Treasury assistant secretary for international affairs.

Taiwan also was cited in the report for manipulating its currency. Wethington said market forces in Taiwan don't play enough of a role in determining Taiwan's exchange rate against the U.S. dollar. "With continued large external surpluses, close to $90 billion in foreign exchange reserves, and a high growth rate, this economy doesn't need rigid, state-imposed foreign exchange restrictions."

In addition to assessing the exchange rate policies of major U.S. trading partners, the report reviews global economic developments. The United States remains concerned over sluggish global economic growth. While signs of recovery are evident in

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the United States, the report notes economic performance remains weak in Japan and Europe. As a result, the U.S. trade and current account deficits are expected to increase.

Although the report did not conclude that Korea is manipulating its exchange rate, Treasury remains concerned that pervasive foreign exchange and capital controls constrain market forces and provide the potential for manipulation. Therefore, Treasury is continuing to press for liberalization of financial, capital, and foreign exchange controls in Korea.

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DEPARTMENT OF THE TREASURY

REPORT TO THE CONGRESS

ON

INTERNATIONAL ECONOMIC AND EXCHANGE RATE POLICY

DECEMBER 1992

DEPARTMENT OF THE TREASURY

REPORT TO THE CONGRESS

ON

INTERNATIONAL ECONOMIC AND EXCHANGE RATE POLICY

DECEMBER 1992

TABLE OF CONTENTS

PART I: INTRODUCTION

Section 3005 of the Omnibus Trade and Competitiveness Act of 1988 (Pub. L. 100-418) requires the Secretary of the Treasury to submit to the Committee on Banking, Housing, and Urban Affairs of the Senate and Committee on Banking, Finance and Urban Affairs of the House of Representatives an annual report each October 15 on international economic policy, including exchange rate policy. In addition, Section 3005 requires the Secretary to provide a written update of developments six months after the initial report. This is the fifth annual report submitted to Congress.

Part II of this report reviews the economic situation in the industrial countries and efforts by major countries to coordinate economic policies. Part III analyzes developments in the foreign exchange markets, including the dollar's movement relative to the currencies of major trading partners and U.S. foreign exchange market intervention. Part IV examines the U.S. balance of payments situation and assesses issues related to the U.S. economic and balance of payments situation. Part V, prepared pursuant to Section 3004 of the Omnibus Trade and Competitiveness Act of 1988, considers whether countries manipulate the rate of exchange between their currencies and the U.S. dollar within the meaning of the legislation. In this connection, a status report on developments in Taiwan, Korea, and China is provided. The final part provides conclusions on the principal issues discussed in the report.

PART II: ECONOMIC POLICY COORDINATION AND THE ECONOMIC SITUATION IN THE INDUSTRIAL COUNTRIES

The increased integration of the world economy has significantly reduced the economic independence of even the largest economies and reaffirmed the importance of a strong economic policy coordination process. A sound world economy requires that the major countries work closely to formulate compatible policies necessary for sustained growth with low inflation, sustainable external imbalances, and greater stability of exchange markets.

The coordination process was intensified in the mid-1980s in response to divergent economic performances among the major economies which had resulted in growing external imbalances, substantial dislocations in the U.S. manufacturing sector, and rising protectionist pressures. Beginning with the 1985 Plaza Agreement, the major countries agreed on policy actions to address these problems and to facilitate balance of payments adjustment and economic growth.

The broad agreement on policy directions achieved by the G-7 countries through the late 1980s contributed to the longest peacetime expansion in the post-war period, reductions in external imbalances, and increased stability in exchange markets.

In the 1990s, however, divergent economic conditions have emerged and the historic changes in East Europe, the former Soviet Union, and elsewhere resulted in a loss of consensus on economic policy priorities. In the United States, declining price pressures and concern over rising unemployment led authorities to ease monetary policy and lower interest rates. At the same time, Germany's mounting unification costs coupled with the Bundesbank's adherence to price stability goals led to a tight monetary policy and higher interest rates. Under the fixed exchange rates of the European Monetary System (EMS), high German interest rates were transmitted throughout Europe -- at a time of slowing growth.

The resulting disparity in interest rates in Europe and the United States contributed to strong exchange rate pressures. These pressures were especially acute in Europe where authorities struggled to maintain fixed exchange rates despite divergent economic conditions.

Thus, the challenges confronting G-7 policymakers have been to 1) achieve a new policy consensus oriented toward growth and 2) strengthen the coordination process to respond to changes in the international economy. Below is a description of the current economic situation and prospects in the major countries and the G-7's response.

Growth

The G-7 economies are still experiencing slow aggregate growth, but considerable disparities in economic performance remain. In the aggregate, real GDP/GNP is expected by the IMF in its October forecasts to increase about 1.7 percent in 1992 on a year-over-year basis. This would be an improvement over last year's performance -- when real growth was only 0.6 percent -- but is, nonetheless, substandard compared with the long expansion following the 1982 recession. (See Table 1 for detailed IMF projections.)

Recent slow growth appears to be related to imbalances which arose during the economic expansion of the 1980s. During this period, asset prices in some countries escalated to inappropriate levels; corporate and household debt rose to uncomfortable heights; and stocks of some real assets increased beyond current need. The adjustment process necessary to reduce these imbalances has slowed recovery from recession in the United States, Canada, and the United Kingdom. In Japan and Germany, where growth had not initially faltered, weakness is now clearly evident. In addition, developments in European currency markets and questions surrounding the Maastricht Treaty have increased economic uncertainties in Europe and may have contributed to weaker growth.

For 1993, the IMF has projected 3.0 percent aggregate G-7 growth. However, this forecast is subject to considerable uncertainty, and substantial downside risk exists. Latest data suggest, for example, that consumer confidence remains weak, industrial output is below earlier peaks, and business investment is sluggish. Consequently, a number of forecasters, including the international financial institutions, have been revising downward their projections for next year.

Growth in 1992 is projected by the Fund to be strongest in France, Canada, Japan, and the United States. France has been able to maintain modest growth in 1992 (projected at 2.2 percent), reflecting exports to other EC countries, despite high interest rates; Canada's economy is projected to achieve nearly comparable results (2.1 percent growth) by a recovery in interest sensitive construction and by exporting to the growing U.S. economy.

Growth in Japan is likely to be very disappointing by historical standards (around 2.0 percent in 1992 according to the IMF) because domestic demand has been restrained by the adverse effects on consumption and investment of falling real estate and equity prices, by previous very high levels of private investment, and by contractionary fiscal policies. Mitigating the effect of these policies is Japan's success in exporting to rapidly growing Asian markets. The recently announced fiscal stimulus program should help to strengthen the economy, although the effects of the program may not be visible until next year. Given the hindrances to strong growth, the IMF's October projection of 3.8 percent growth for 1993 appears quite optimistic.

The greatest uncertainties are in Europe. Germany's economy faltered in the second quarter after an aberrantly strong first quarter. While consumption may respond positively to the removal of the income tax surcharge last July, and some types of investment -- especially in eastern Germany -- should show moderate growth, growth in 1992 is projected by the IMF to reach 1.8 percent for Germany as a whole. The Fund's forecast of 2.6 percent growth for 1993 assumes that current obstacles to strong recovery -- particularly high real interest rates -- will be overcome.

The United Kingdom apparently remains in recession; lower interest rates and the September devaluation may not have much impact until next year, and growth for 1992 is expected to be negative (-0.8 percent). France should experience modest growth in 1993, but this economy will have to overcome the improved competitiveness of goods produced in the U.K., Italian, and Spanish economies, as well as the adverse effect of high domestic interest rates.

Price Trends

Inflation has been declining in most G-7 countries, and should continue to slow next year. The IMF projects a decline in aggregate G-7 consumer price inflation from 4.3 percent in 1991 to 3.1 percent in 1992 and 3.2 percent in 1993. These will be the best aggregate inflation rates since the late 1960s (excluding the 1986-88 period following the collapse of world petroleum prices), and indicate a major improvement in economic performance after the high inflation of the 1970s. Last year, France registered the lowest inflation rate, with an increase of just 3.1 percent in consumer prices. This year, Canada is likely to be most successful in approaching practical price stability by limiting inflation to a rate of only 1.6 percent.

The IMF projects consumer price inflation in the United States of 3.1 percent in both 1992 and 1993, about the same as the Mid-Session Budget Review estimates. Among other factors, availability of manufacturing capacity, reasonably good productivity growth, and low raw material prices have allowed output to grow while price performance improves. Alone among the G-7 countries, Germany will record higher year-over-year inflation in 1992 than in 1991, mainly because of the impact of consumption tax increases that went into effect in July 1991. Once the influence of these measures had been eliminated from the CPI (in July 1992), inflation fell. Favorable influences on Germany's medium-term outlook include the downward impact on import prices of recent DM appreciation and a more moderate pattern of wage settlements.

The United Kingdom and Italy have both been successful in reducing inflation thus far in 1992 compared with 1991. Inflation in the United Kingdom is expected to fall on a year-over-year basis from 5.9 percent in 1991 to 3.8 percent in 1992. Similarly, inflation in Italy is expected to fall from 6.3 percent in 1991 to 5.6 percent in 1992. The IMF expects further small improvements in 1993, but the recent depreciation of the pound and lira against the DM may increase import prices and limit further progress on the inflation front. Inflation in Japan is expected to be a bit more than a 2 percent rate in 1992 and 1993. Wages have been rising slowly and land prices have been falling. Appreciation of the yen has also had the effect of reducing the prices of imported goods.

External Account Developments

The most important recent development in the external accounts of G-7 countries is the continuing sharp rise in Japan's trade and current account surpluses (to a current account surplus of $110 billion for 1992 according to IMF projections). In the United States there has been some leveling off in the reduction of the current account deficit. For other G-7 countries, nothing dramatic is anticipated. Germany's deficit should rise somewhat to about $22 billion in 1992 and then fall by a substantial amount to about $9 billion in 1993. The United Kingdom's deficit is expected to deteriorate from $11 billion in 1991 to $19 billion in both 1992 and 1993, while the IMF forecast shows deterioration in Italy's current account deficit to $25 billion in 1992 and $33 billion in 1993. However, the recent depreciations of the pound and lira vis-a-vis the DM could alter these projections.

In 1991, the U.S. current account showed a deficit of $3.7 billion, down $87 billion from the 1990 result. Only about $45 billion of the decline reflected ordinary economic factors; the remainder (about $42 billion) reflected Desert Storm-related transfers. Without the transfers, the 1991 deficit would have been about $46 billion. The merchandise trade and current account deficits are likely to deteriorate this year, as higher growth leads to a pickup in imports, and disappointing growth in Europe and Japan limits export expansion.

Japan's current account surplus declined during the late 1980s, but this trend stopped in 1990, and the Japanese current account surplus rose once again to nearly $73 billion in 1991. The IMF projects that the surplus will reach about $110 billion in 1992. About 80 percent of the projected increase is due to a growing trade surplus. Imports have not changed much in yen terms since 1989, while exports, particularly to countries in Asia, have grown rapidly. Total Japanese exports are expected to increase nearly $25 billion in 1992. The surplus is not expected to change much in 1993.

Between 1990 and 1991, there was strong shift in Germany's external accounts from a current account surplus of $47 billion to a deficit of $20 billion. This shift reflected the impact of unification between an advanced industrial area in the west and a much less advanced developing region (the former GDR) in the east. The balance of payments consequences occurred in two phases. Initially, exports of both east and west Germany fell, and imports of both areas rose. The main factors were a diversion to the eastern area of west German goods that might have been exported; the collapse of east German exports to COMECON; and the substantial transfers by west Germany that allowed east Germans to finance a consumption boom. This situation persisted until the second quarter of 1991, when policy changes were made that cut the growth of imports and mildly stimulated exports. These policies are still largely in place, and should produce a current account deficit of about $22 billion in 1992 and a deficit of $9 billion in 1993.

<u>The G-7 Response</u>

Since 1991, the overriding U.S. priority in the G-7 has been to build a consensus around a growth-oriented strategy designed to assure a strong recovery, create jobs, and provide a supportive global economic environment for the reforming countries of East Europe, the former Soviet Union, and elsewhere.

U.S. efforts have been complicated, however, by divergent economic conditions among the major economies. When the economic slowdown took hold in the U.S., Canada, and the U.K. in the second half of 1990, strong growth rates prevailed in Germany and Japan. Cyclical differences in economic performance gave way to broader policy divergences as high German budget deficits associated with unification costs and the Bundesbank's tight monetary policies resulted in steadily rising German interest rates. The commitment of other EC countries to the EMS required them to pursue high interest rates in order to maintain fixed exchange rates -- despite weakening economic conditions.

G-7 countries began to coalesce around the U.S. growth strategy, however, as the downturn in economic growth persisted and prospects for a strong recovery appeared increasingly uncertain. At the Munich Summit, a new consensus on the priority of growth was endorsed by Heads of State, who expressed particular concern over the hardship created by unemployment and pledged to adopt policies aimed at creating jobs and growth.

The new G-7 consensus was reflected in Munich Summit guidelines committing countries to pursue sound fiscal and monetary policies in order to create the scope for lower interest rates and support for the upturn without rekindling inflation.

There was also agreement to reduce structural rigidities that posed obstacles to private initiative and employment creation. In this regard, Summit participants agreed on the importance of an early conclusion to a successful Uruguay Round in order to reinforce growth in the major economies as well as to support reforming countries elsewhere in the world.

Actions have been taken to implement the new G-7 consensus and strengthen the economic recovery. Japan has announced the largest fiscal stimulus package in its history and Germany has cut interest rates for the first time in five years. Reduced price pressures and lower interest rates in a number of countries have established the basis for a pick-up in investment and growth.

G-7 measures to increase growth occurred amid turmoil in European exchange markets and disruptions in the EMS (see Part III). At their September meeting, G-7 Ministers and Governors expressed concern over the volatility in exchange markets and agreed that recent measures to increase growth would foster greater stability in exchange markets.

Recent events have demonstrated anew the consequences of incompatible and inconsistent policies in an integrated world economy with global financial markets. The fundamental premise of the G-7 process has been reaffirmed, but there must be a continued willingness to consider measures to improve economic policy coordination in order to respond to the significant changes in the world economy.

Global capital markets have undergone particularly significant change. The speed and size of international capital flows have grown enormously and the channels for their transmission have increased in complexity with the development of new instruments and technologies. As a result, foreign exchange transactions have increased substantially -- to nearly $1 trillion daily according to some estimates.

At the U.S. initiative, the Group of 10 is now considering the implications of developments in international capital markets for the exchange rate system and economic policy coordination. This analysis will assist G-7 Finance Ministers leading up to the Tokyo Summit as they examine methods of cooperation that will permit the international monetary system to adapt to changing circumstances while ensuring internationally responsible policies.

PART III: DEVELOPMENTS IN FOREIGN EXCHANGE MARKETS

Overview

Over the past year (ending mid-October), the dollar depreciated by 7 percent against the Japanese yen and 14 percent against the German mark. On a trade weighted basis, however, the dollar's decline was only about 2-1/2 percent, reflecting an appreciation of more than 10 percent against Canada, our largest trading partner.

The main factors behind the exchange rate movements were changes in interest rates in the United States and abroad which reflected differences in economic conditions, particularly growth, and resulted in large interest differentials unfavorable to dollar assets. Towards the end of the period, serious strains developed among European currencies, which triggered large short-term capital flows. On balance, however, these flows did not appear to have a significant lasting effect on the dollar's exchange value.

The dollar reached record lows of DM 1.3865 and ¥ 118.60 in September 1992 but was recovering toward the end of the reporting period as the U.S. economy showing increased signs of recovery while growth in Europe and Japan slowed.

Dollar

The dollar trended downward against most other major currencies through much of the year, apart from a brief period in early 1992 when the U.S. economic recovery briefly seemed to pick up speed. As noted above, the decline primarily reflected a further widening of large differentials between European and U.S. interest rates. Subsequently, declining consumer and business confidence and weakening employment in the United States discouraged any expectation that the differentials would narrow significantly over the near term. Also, the U.S. monetary authorities were perceived as unconcerned about dollar depreciation so long as it was orderly.

Yen

The yen appreciated modestly against the dollar but declined against European currencies. This mixed picture reflected several factors, including a decline in Japanese interest rates as the authorities responded to growing signs of an economic slowdown and increased strains in domestic financial markets. As a result, interest differentials on dollar/yen narrowed somewhat but widened on yen/DM. Moreover, Japanese capital flows reversed from recent years as financial institutions reduced their foreign exposure at a time of increased strain in domestic financial markets. The sharp rise in Japan's external surplus may also have provided underlying support for the yen. Finally, the announcement of a fiscal stimulus package and measures to prop up financial markets eased pressure on the yen and contributed to some appreciation toward the close of the reporting period.

European Currencies

European currencies appreciated steadily against the dollar for most of the year. U.S. monetary easing to stimulate the economy produced the lowest interest rates in more than 25 years. In contrast, German interest rates rose to historically high levels as the rising cost of German unification was financed primarily through borrowing and monetary policy was tightened to deal with the inflationary effects of increased public and private expenditures. As a result, short-term dollar/DM interest rate differentials widened to an unprecedented 6 3/4 percent. A similar increase in interest differentials occurred with other European currencies as they followed German monetary policies through most of the period, despite weaker economic situations, in order to maintain exchange rates under the EMS.

Initially, the exchange rate pressures within Europe were contained as market participants believed that economic policies and performance would converge under the requirements of the Maastricht Treaty for economic and monetary unification. However, the Danish vote rejecting Maastricht weakened this market view and focused attention on the ability of governments to maintain EMS exchange rates in the face of disparate economic conditions. As uncertainties regarding the future of European unification increased in the period leading up to the French referendum on the treaty, speculative pressures intensified.

The authorities sought to combat these pressures through a combination of large scale intervention, increases in interest rates by countries whose currencies were under downward pressure, and statements reaffirming the commitment to Maastricht, including maintenance of the exchange rate arrangements. On September 14, however, the Italian lira's bilateral central rate was devalued by 7 percent. At the same time, Germany reduced the Lombard rate by 1/4 percent. Nevertheless, the markets considered these actions insufficient; massive speculative capital flows out of the lira and into German marks continued and heavy selling pressures also developed against the sterling. Despite very heavy intervention and sharp interest rate rises, the U.K. authorities were forced to suspend sterling from the EMS, and it subsequently depreciated by more than 15 percent. The Italian lira was also suspended from the EMS, and it depreciated by about 15 percent, while the Spanish peseta's bilateral central rate was devalued by 5 percent but remained in the EMS. In addition, Spain, Ireland, and Portugal introduced temporary measures to restrict capital flows.

Following the French referendum on September 20 approving the Maastricht Treaty by a narrow margin, pressures in the EMS shifted largely to the French franc. However, the French authorities were successful in defusing the situation through increases in domestic interest rates and large scale joint French-German intervention. The relatively strong performance of the French economy in recent years also contributed to the credibility of the authorities' efforts to convince the markets that the current exchange rate was sustainable. French market interest rates eased, and the French were able to recover DM reserves spent defending the franc, in subsequent weeks.

Subsequent to the September events, interest rates in Europe declined somewhat as German and other European authorities responded to growing evidence of the economic slowdown and as exchange market pressures eased. The dollar has recovered some of its earlier declines and, by the end of the reporting period, had moved into a DM 1.45-1.50 range.

PART IV: U.S. BALANCE OF PAYMENTS

Medium-Term Overview

The U.S. trade and current accounts have experienced very wide swings since the early 1980s. From a modest deficit on trade ($25 billion) and near balance on the current account in 1980, both balances had moved into deep deficits (in the $160 billion range) by 1987. Subsequently, both deficits turned course and have been on a declining path, at least until quite recently.

The major factors in both episodes were relative growth in the U.S. and major markets, and the exchange rate. During the 1980-87 period of increasing external deficits, U.S. growth outpaced that of our major trading partners and the dollar appreciated substantially. U.S. exports stagnated, while import growth was robust. Since 1988, U.S. growth has slowed substantially while Europe and Japan -- until recently -- experienced strong, investment-led growth as did the Asian newly industrialized economies. At the same time, the dollar depreciated, returning to roughly its 1980 level on a trade-weighted basis. Export growth rebounded dramatically, while import growth moderated.

Recent developments, and the outlook for the trade and current accounts, will continue to depend heavily on these factors. In particular, the recent weakness in demand growth in Europe and Japan has begun to be reflected in weaker U.S. export performance. (In addition to the exchange rate, price competitiveness of U.S. exports will depend on the relative inflation performance of the United States and the ability of U.S. firms to continue to enhance competitiveness in terms of both price and quality.)

Developments in 1992

Trade balance: The U.S. trade deficit in the first half of 1992 (balance of payments basis, seasonally adjusted) was $83.3 billion at an annual rate, up from $77.4 billion in the second half of last year and $73.4 billion for the year as a whole. This modest deterioration, which apparently began during the course of 1991, represents a reversal of the downward trend which began in 1987 and lasted for roughly four years.

First half 1992 exports (unless otherwise indicated, all data are seasonally adjusted on a balance of payments basis) reached $431 billion at an annual rate, up about $15 billion or 3.6% from the full year 1991. However, the year-over-year increase reflects growth early in 1991 -- exports have been "stuck" at just under $108 billion for three quarters, and this apparent flattening-out is confirmed by the most recent monthly data. Strong export growth, which averaged roughly 13-1/2% per year in value terms between 1987 and 1991, was the major factor in the decline in the trade deficit during that period.

While exports have stagnated so far in 1992, imports -- which actually declined in 1991, due to lower oil prices in the wake of the Gulf War -- have showed signs of renewed growth despite the very modest pace of recovery in the domestic U.S. economy. Imports (both total and non-oil) rose during the first half to $514.3 billion at an annual rate, up $25 billion or 5.1% compared with full-year 1991. Most of the increase came in the second quarter, and was sustained in the third quarter.

On an area basis, the 1992 trade balance has deteriorated (larger deficit or smaller surplus) vis-a-vis most of the industrial countries, but improved (smaller deficit/larger surplus) vis-a-vis Latin America, OPEC, and the Asian NIEs. Export growth has been particularly weak with respect to the other industrial countries, especially Europe, reflecting the very weak demand growth in their economies. This coincidence of weak export growth and trade balance deterioration mirrors the pattern in the overall balance.

<u>Current account balance</u>: The current account for the first half of 1992 was in deficit at an annual rate of $48 billion, roughly the same as 1991's $46 billion if the one-time receipts of Desert Storm support are disregarded. The current account typically reflects swings in the trade balance, since trade is still the largest single component -- though the importance of services has increased substantially in recent years.

However, there was a sharp increase in the current account deficit in the second quarter -- to $17.8 billion, from $5.9 billion in the first quarter -- only part of which represented a rising trade deficit. In addition, there was a sharp drop -- over $3 billion -- in net investment income receipts. Foreign direct investments in the U.S., which had been registering losses, shifted to small profits in the second quarter. Like the second quarter pick-up in merchandise imports, this development may reflect the gradual U.S. recovery and thus could represent initial signs of a cyclical deterioration in the current account in coming quarters.

<u>Capital account</u>: In principle, the capital account balance constitutes the mirror-image of the current account balance, and the net capital flow should equal the opposing current account flow (i.e., a current account deficit would have as its counterpart a net capital inflow). However, measurement problems mean that the two balances can be quite different.

So far in 1992, the recorded net capital inflow is over twice as large as the current account deficit -- that is, there is a "statistical discrepancy" of $28 billion, compared with the $23.7 billion current account deficit. U.S. investors have continued to acquire substantial amounts of foreign assets in 1992, in the form of both portfolio and direct investments. Capital outflows in these two categories totalled $86 billion at an annual rate during the first half of 1992, compared with $72 billion for 1991.

There was a strong recovery of foreign private investment in the U.S. in the second quarter of this year, particularly purchases of U.S. securities. Foreign direct investment inflows, which showed a mixed pattern in 1991, also picked up somewhat in the second quarter but remain well below the very high annual levels of 1987-90. There were very substantial (over $21 billion per quarter) inflows of official capital in the first half of 1992.

Prospects for Full-Year 1992 and 1993

Trade balance: The trade deficit for full-year 1992 is expected to reflect the modest trend of deterioration noted above, beginning in mid-1991. Imports should continue to show modest growth, while exports are likely to remain weak. The net result is expected to be an increase in the trade deficit on the order of $20 billion, to the $95 billion range.

This contrasts with the projection in the previous Report of a modest further decline in the deficit. The principal difference is a less buoyant outlook for exports -- despite a continued strong U.S. competitive position -- in light of weaker demand than previously foreseen in Europe and Japan. (The lower dollar, if sustained, would have significant effects on exports only in the latter part of 1993, due to lags in the responses of prices and volumes.) Expected weak demand in foreign markets coincides with a revival, albeit gradual, in U.S. import demand.

Current account balance: The 1992 current account deficit will show a substantial increase from the recorded 1991 figure of $4 billion, which included $42 billion in one-time transfers from foreign governments in support of Desert Storm. There should also be some deterioration in the 1992 current account deficit, compared with the 1991 figure of $46 billion excluding Desert Storm -- a more appropriate basis for comparison. The deteriorating trade balance will be only partially offset by the strong positive trend of recent years in services receipts, where the U.S. is a competitive supplier of a range of activities such as tourism, financial services, and advanced education.

Investment income may show a modest decline from 1991, since the favorable effects of the U.S.-foreign interest rate differential (lower U.S. rates mean smaller payments on foreign assets in the U.S., and vice versa) may be offset by the cyclical effects on direct investment income. (The income of foreign investors in the U.S. tends to rise with domestic business profits. Hence a U.S. economic recovery is likely to increase investment income payments to foreigners, while sluggish activity abroad will act as a drag on earnings of foreign investments of U.S. firms.)

For 1993, the cyclical factors influencing the trade deficit will continue to generate a modest negative trend, with imports responding to a continued U.S. expansion while foreign demand growth remains subdued. As a result, the trade deficit could exceed $100 billion in 1993 unless exports pick up more strongly than now foreseen.

This further increase in the trade deficit will be only partially offset by the growing surplus on services transactions. In addition, the underlying trend in net investment income is negative due to the growing net U.S. indebtedness resulting from sustained current account deficits. While a higher rate of return on U.S. foreign direct investment may continue for a time, foreign investments in the U.S. should close the gap as they mature.

At the same time, the U.S.-foreign interest differential, presently favoring the U.S. (i.e., interest rates earned on foreign assets in the U.S. are low, while those paid on foreign holdings of U.S. investors are high), should narrow. Thus the medium-term outlook is for further declines in net investment income, as rates of return on foreign investments in the U.S. increase relative to those we earn on our investments abroad. The net effect for 1993 is expected to be a further increase in the current account deficit, to the $70 billion range.

Analysis of the U.S. External Deficit

U.S. external competitiveness remains fundamentally sound despite the slowdown in overseas markets and the resulting dip in U.S. export performance. In contrast to the first half of the 1980s, when U.S. exports were declining as the dollar steadily appreciated against other major currencies, the modest deterioration expected in U.S. current account balances over the next year is likely to be attributed almost entirely to a rise in imports. Export performance is expected to flatten out, but a variety of factors point to the sector's overall resilience.

First, the U.S. competitive position as indicated by a variety of measures (e.g., U.S. relative unit labor costs, the relative unit price of exports, and real effective exchange rates) has improved substantially since the mid-1980s. These factors and possibly others, such as changes in relative capital costs, will continue to benefit U.S. exporters. In addition, U.S. performance on services continues to demonstrate considerable long-run strength.

Second, the new G-7 consensus on growth-oriented policies and the implementation of measures in that direction auger well for further progress in reducing external imbalances. Japan's fiscal stimulus, for example, should help shift the engine for growth in that country from rising exports to increased internal demand.

Third, G-7 measures to increase growth are expected to contribute to greater exchange rate stability. In this context, the dollar's value has been reasonably stable in recent years and broadly consistent with a competitive U.S. position.

To be sure, the dampening of export growth rates achieved in recent years will be felt. Between 1987 and 1991, the increase in net exports of goods and services accounted for 40 percent of U.S. GDP growth and played a critical role in U.S. job creation. For these reasons, the U.S. assigns critical importance to ensuring that G-7 efforts to strengthen the global economic recovery take hold. At the same time, the United States must take actions domestically to remove impediments to growth and to support continued progress in reducing external imbalances.

Issues Regarding Medium-Term U.S. Balance of Payments Performance

The U.S. current account mirrors the continued imbalance between U.S. national savings and investment. This internal imbalance and U.S. economic performance more broadly give rise to a number of issues, including the sustainability of the U.S. external position and measures to improve national savings.

The decline in the U.S. current account deficit in 1991 (abstracting out Desert Storm inflows) was associated with a sharp drop in private investment (equal to 1-3/4 percent of GDP). At the same time, the modest increase in personal savings was more than offset by the increase in federal government dissavings. Over the medium term, the IMF projects U.S. current account deficits widening somewhat to 1-1/2 percent of GDP, but stresses that policies to improve national savings would contribute to a reduction in the current account deficit.

U.S. economic policies and their implications are reviewed annually in Article IV consultations by the International Monetary Fund. During the most recent review, the IMF noted the likelihood of a strengthening U.S. recovery, but emphasized that medium-term prospects depended importantly on improvements in national savings performance -- particularly regarding the U.S. budget deficit. The Fund believes that the deterioration in the U.S. fiscal position along with forecasts of high budget deficits over the medium-term have major implications for the health and durability of the economic recovery, domestic investment, and the U.S. current account.

The IMF's heavy emphasis on restoring U.S. fiscal balances in the short-term has led it to prescribe a number of revenue and spending measures to close the budget gap. On the revenue side these include energy taxes, value added taxes, and the elimination of the deductibility of mortgage interest. Spending cuts proposed by the IMF include: reduced farm price supports, cutbacks in Medicare and Medicaid, and further reductions in defense expenditures.

The United States shares the objective of reducing the budget deficit but believes the Fund's proposed remedies, which seek a correction in the fiscal balance of five percent of GDP by 1997, would exert strong downward pressure on the U.S. economy at a time of already sluggish growth. Job creation would suffer and output would remain subdued over an extended "adjustment" period.

In contrast, the United States has stressed the overriding importance of strengthening the recovery and establishing sustainable growth with low inflation. There is broad agreement on the need to address the major structural aspects of the current fiscal imbalance, particularly the rapid increase in outlays for various mandatory programs. However, the more measured approach advocated by the United States envisages a balanced set of policies designed to ensure a more robust upturn in growth in the near term while offering credible prospects for a substantial reduction in the budget deficit over the medium-term.

Such an approach is also consistent with ensuring the U.S. external position remains "sustainable" and does not risk an excessive accumulation of external indebtedness. Although "sustainability" encompasses a variety of factors and market perceptions that cannot be quantified in any meaningful way, the U.S. external position does benefit from a number of strengths and positive trends.

U.S. export competitiveness has increased dramatically in recent years, as was discussed previously. The growth in services exports is expected to continue despite the slowdown in some major overseas markets. Due to the sustained improvement in U.S. competitiveness across a broad range of sectors, U.S. authorities expect a more modest deterioration in the U.S. current account deficit than does the IMF over the medium term, particularly as cyclical factors converge among the major economies.

Further contributing to the stability of the U.S. external position are the size and openness of the U.S. economy and the size and liquidity of U.S. capital markets. These attributes will continue to attract foreign investment to the United States in the foreseeable future. The United States is committed to an open and growing multilateral trade and payments system to facilitate the continued expansion of trade and investment flows. Recent successes in confirming the new consensus on growth among the G-7 countries as well as ongoing efforts to strengthen the economic policy coordination process should contribute further to the smooth functioning of the international economic system.

PART V: ASIAN NEWLY INDUSTRIALIZED COUNTRIES AND CHINA

Background

Under Section 3004 of the Omnibus Trade and Competitiveness Act of 1988, the Secretary of the Treasury is required to "...consider whether countries manipulate the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustment or gaining unfair competitive advantage in international trade. If the Secretary considers that such manipulation is occurring with respect to countries that (1) have material global current account surpluses and (2) have significant bilateral trade surpluses with the United States, the Secretary of the Treasury shall take action to initiate negotiations...on an expedited basis...for the purpose of ensuring that such countries regularly and promptly adjust the rate of exchange between their currencies and the United States dollar to permit effective balance of payments adjustments and to eliminate the unfair advantage."

It was concluded in the October 1988 exchange rate report that Taiwan and Korea "manipulated" their exchange rates, within the meaning of the legislation. Pursuant to Section 3004, Treasury initiated bilateral negotiations with Taiwan and Korea for the purpose of ensuring that these two economies regularly and promptly adjust the rate of exchange between their currencies and the U.S. dollar to permit effective balance of payments adjustment and to eliminate unfair competitive advantage.

Treasury concluded that Taiwan in fall 1989 and Korea in spring 1990 were no longer directly "manipulating" their currencies within the meaning of the legislation. These findings were reaffirmed in fall 1990, spring 1991, and fall 1991. However, it was noted that Taiwan's external surpluses remained large and that, in both Taiwan and Korea, exchange rate policy would continue to have an important role to play in promoting economic adjustment.

In addition, the reports concluded that, in Korea, liberalization of remaining exchange and capital controls was required to improve the functioning of the exchange markets and assure the full operation of market forces in exchange rate determination. In Taiwan, foreign exchange and capital controls were cited as impediments to the operation of market forces in exchange rate determination.

China's large external surpluses, including its growing bilateral surplus with the United States, depreciation of the renminbi, and administrative controls over foreign exchange allocation and trade have led the Treasury Department to consider the applicability of Section 3004 to China. The three reports from fall 1990 to fall 1991 concluded that China's trade surplus with the United States was primarily due to causes other than exchange rate manipulation. However, the reports noted that China's foreign exchange controls were of serious concern. The Treasury Department began discussions with the Chinese authorities on liberalizing these controls.

In the spring 1992 report, the Treasury Department again found no basis for concluding that Korea was manipulating its exchange rate within the meaning of the legislation. But the Department did find that pervasive Korean exchange and capital controls significantly constrain market forces in the currency market. The report concluded that liberalization of these controls, the subject of ongoing bilateral Financial Policy Talks, is imperative to achieve truly market-oriented exchange rates and trade and investment flows.

In the case of Taiwan, the spring 1992 report noted the 1991 rise in the overall current account surplus, the slow pace of adjustment of the bilateral trade surplus with the United States, and the country's extremely large foreign exchange reserves. The Treasury Department also noted Central Bank intervention to moderate upward pressure on the New Taiwan dollar and continued restrictions on capital flows. In this context, the Department concluded that Taiwan was manipulating its exchange rate within the meaning of the legislation. Treasury stated its intention to negotiate specific measures to help achieve a more market-determined exchange rate and substantial adjustment in Taiwan's external imbalances.

For China, the spring 1992 report found a large overall current account surplus for 1991, very substantial foreign exchange reserves, and a sharp 1991 increase in the country's bilateral trade surplus with the United States. The Department determined that a principal cause of China's large external surpluses was its network of pervasive administrative controls over external trade which severely inhibit China's imports. But, in addition, Treasury found that China was manipulating its exchange rate to help attain its balance of payments objectives. The basis for this judgment was the continued devaluation of the administered exchange rate, despite growing external surpluses, and the significant control exercised by the authorities over foreign exchange swap center rates which had also depreciated since the emergence of the large surpluses. The Treasury Department stated its intention to negotiate with the Chinese authorities on reforms to bring about a market-oriented system of exchange rate determination and foreign exchange allocation in order to help permit substantial balance of payments adjustment.

The remainder of this chapter provides an update of balance of payments and exchange rate developments in Korea, Taiwan, and China, and the Treasury Department's current assessment of the applicability of Section 3004 to these economies. (See Table 5.)

KOREA

The Korean won has depreciated slightly against the U.S. dollar since the spring 1992 report. The nominal depreciation reflects in part the continued adjustment in Korea's external accounts, as well as higher Korean inflation. However, the exchange rate continues to be influenced by pervasive foreign exchange and capital controls in Korea. These controls constrain the forces of supply and demand in the exchange market, distort trade and investment flows, and continue to position the authorities to manipulate the exchange rate through indirect means. The Korean government is currently formulating a comprehensive blueprint for financial sector liberalization, expected to be completed by the end of 1992.

Trade and Economic Developments

The Korean economy is stabilizing in 1992 in line with government objectives. Real GNP growth is expected to be held by the government to 6.6 percent this year, compared to 8.4 percent in 1991. Private consumption and exports are leading growth. Inflation, which reached 9.3 percent at end-1991, is improving in 1992 -- consumer prices rose 3.8 percent in the first half of 1992, compared to 6.2 percent during the same period last year. The central bank projects end-1992 inflation to reach 6.5 percent. Unemployment remains low at just over 2 percent of the labor force.

Korea's external accounts have undergone substantial adjustment since 1989. This adjustment -- which moved the current account from a surplus of 2.4 percent of GNP in 1989 to a deficit of 3.1 percent of GNP in 1991 -- has resulted largely from an increase in imports caused by strong growth of the domestic economy; rising wage demands and other factors adversely affecting Korea's export competitiveness; and rising oil import prices and the longer term impact of the Persian Gulf crisis.

A current account deficit of $2.1 billion emerged in 1990, and grew to a record $8.7 billion in 1991. Korean authorities project the current account deficit will fall to roughly $5 billion in 1992. Korea's trade deficit, which reached $7 billion on a balance of payments basis (2.5 percent of GNP) at the end of 1991, is expected to shrink to $2.5 billion in 1992. Notably, first half exports outpaced imports for the first time in four years. Korea's external deficits do not appear to be structural in nature; authorities anticipate external surpluses by mid-decade.

According to U.S. data, the U.S. bilateral trade deficit with Korea in 1991 fell to $1.5 billion, down 63 percent from 1990. In the first eight months of 1992, U.S. data showed a trade deficit with Korea of $1.0 billion, compared to a deficit of $869 million during the same period in 1991.

Reflecting the rise in the external deficits, Korea's gross and net debt figures rose in 1991. After declining steadily since 1985, Korea's gross external debt rose to $39.3 billion at the end of 1991 (14 percent of GNP), from $31.7 billion at the end of 1990. Net external debt reached $12.5 billion at the end of 1991, up from $4.9 billion in 1990. However, the debt service ratio has fallen significantly over the last 5 years, registering roughly 6 percent in 1991, and is expected to decline further to 5 percent in 1992.

Reflecting the recent improvement in Korea's external accounts, Korea's foreign exchange reserves have shown an upward trend in recent months, rising from $13.7 billion at end-1991 to $15.2 billion at end-July 1992, representing 2.5 months of import cover.

Exchange Market Developments

Under the "market average rate" (MAR) system of exchange determination, introduced on March 2, 1990, the won/dollar exchange rate at the beginning of each business day is equal to the weighted average of transactions in the inter-bank market on the preceding business day. Inter-bank and customer rates are allowed to float freely within specified margins, which were expanded in September 1991 and in July 1992. Exchange rates between the won and third currencies are set in accordance with dollar rates in international currency markets. Foreign banks have accounted for a large share of transactions in the inter-bank markets, generally between 40-60 percent of the total. Reportedly, the Bank of Korea has intervened only occasionally in the market, and other government-owned banks have accounted for only a small share of inter-bank activity.

Since the inception of the MAR system (through October 16, 1992), the won depreciated 12.8 percent in nominal terms against the U.S. dollar. Most of the depreciation occurred over the second half of 1991 and the first half of 1992, with the currency falling only .8 percent against the dollar on a nominal basis since the spring 1992 report. In the last four months the won has appreciated slightly vis-a-vis the dollar due to improvements in the current account, issuance of overseas bonds, and increased capital inflows following the partial opening of the stock market to foreign participation in early 1992.

Foreign Exchange and Capital Controls

The Korean authorities maintain a comprehensive array of controls on foreign exchange and capital flows. These controls prevent market forces of supply and demand from playing a fully effective role in exchange rate determination, distort trade and investment flows, and provide the Korean authorities with tools for indirectly manipulating the exchange rate.

One of the most onerous controls is the requirement that foreign exchange banks obtain and review, prior to entering into most foreign exchange transactions, original documentation of an underlying commercial transaction. This "real demand" rule seriously hampers the development of Korea's foreign exchange market, reflects the government's continued controlling hand in the foreign exchange market, and its unwillingness to let market forces fully play their role in the economy. Such restrictions are inappropriate for a country at Korea's stage of development.

Other exchange and capital controls severely impede the use of short-term trade finance, such as stringent terms for deferred payments for imports. Direct portfolio investment in Korea was opened to foreigners for the first time in January 1992, but a number of restrictions -- including a 10 percent limit on total foreign investment in most Korean stocks and a 3 percent limit on investment by individual foreigners -- continue to act as disincentives to foreign investment in the market.

The Korean government revised the Foreign Exchange Control Act (FECA) -- renamed the Foreign Exchange Management Act (FEMA) -- in the fall of 1991 to adopt a "negative list" approach to the regulation of foreign exchange transactions. According to the negative list approach, all foreign exchange transactions are to be permitted in principle, with exceptional restrictions explicitly listed in the regulations.

The revised regulations under the new FEMA went into effect September 1, 1992. Treasury's preliminary analysis of the regulations indicates that the list of restricted foreign exchange transactions remains extensive, with little or no relaxation in key areas such as underlying documentation requirements and deferred payments for imports. In some areas, restrictions may have been tightened.

Financial Policy Talks

Capital and exchange controls and other financial policy issues are the subject of the ongoing Financial Policy Talks between the Treasury Department and the Korean Ministry of Finance. The purpose of the talks is to provide a mechanism for addressing specific market access problems that U.S. banks and securities firms face in doing business in Korea, and for encouraging broader liberalization of Korea's financial, capital, and exchange markets. The importance of financial issues to the U.S.-Korean economic relationship was reflected by President Bush's and President Roh's agreement in January 1992 to resolve differences in this area.

In recent sessions with senior Ministry of Finance officials, they have presented an inter-agency workplan for developing a three-staged blueprint for comprehensive liberalization of the financial sector. Treasury welcomed the commitment to formulate such a blueprint as a positive step.

However, concerns remain about the approach of the initial workplan. In particular, the pace of implementation of later stages is determined by macroeconomic preconditions, including a balance or surplus in the current account, lower inflation, and a narrowing of domestic and international interest rate differentials. Treasury has pointed out to the Korean government that financial sector liberalization will be required to reduce interest rates and domestic costs in order to attain the macro preconditions laid out in the plan. Expedited action by the Korean authorities in modifying these policies will be necessary for the Korean economy to remain competitive internationally.

Stages I and II of the blueprint have been completed and implementation of some initial measures has begun. Although the short and medium term measures already announced address to some extent a few of the individual issues facing U.S. and other foreign financial institutions operating in Korea, they do not constitute significant liberalization of the market. The fundamental areas needing attention (and that have impeded market forces in the foreign exchange market), such as lifting pervasive foreign exchange and capital controls, accelerating interest rate liberalization, and developing capital and money markets, are being addressed in the third and final stage of the blueprint, currently scheduled for implementation in 1997 and beyond.

Stage III is now under preparation and is expected to be completed by the end of 1992. The Korean government is consulting with experts from the International Monetary Fund, the International Bank for Reconstruction and Development, and various research institutes as it formulates Stage III. These institutions can provide detailed advice on formulating a tightly integrated blueprint with more timely implementation of the entire range of needed liberalization measures.

Through the Financial Policy Talks, Treasury will continue the dialogue with the Korean Ministry of Finance as the blueprint is finalized. These issues are also addressed in the financial services negotiations underway in the Uruguay Round of world trade talks.

<u>Assessment</u>

There is no basis at this time for the Treasury Department to conclude under Section 3004 that Korea is manipulating its exchange rate for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade. This assessment is based on the following factors: the continuance of significant global trade and current account deficits, the lack of evidence that the Bank of Korea is intervening directly in the exchange market, and the modest role of other government-owned foreign exchange banks in the market.

Nonetheless, although the exchange rate determination system in place in Korea is an improvement over the previous regime, it is far from a truly market-determined one. In particular, Treasury remains seriously concerned that pervasive foreign exchange and capital controls significantly constrain supply and demand in the currency market and provide the potential for manipulation. Liberalization of these controls -- especially the "real demand" rule for foreign exchange transactions -- is imperative to strengthen the role of market forces in exchange rate determination and in Korea's trade and investment flows. In this regard, the extensive list of restricted foreign exchange transactions embodied in the regulations implementing the revised FEMA is disappointing.

Therefore, in the period ahead, the Treasury Department will continue to monitor developments in Korea's external accounts and the operation of the MAR exchange rate system. The Department will also continue to press for liberalization of Korea's financial, capital, and exchange markets, as well as to seek improved treatment for U.S. financial institutions in Korea.

TAIWAN

The Treasury Department continues to be seriously concerned about the lack of appreciable adjustment in Taiwan's continued large bilateral trade surplus with the United States. While Taiwan's overall trade and current account imbalances have declined during 1992, its bilateral trade surplus with the United States has increased. Many factors of course contribute to the persistent surplus that Taiwan has run with the United States during the past several years. Similarly, as trade barriers in Taiwan have been modified, it would be expected that market forces would play a significant role in correcting the bilateral trade imbalance, including appropriate movement in the exchange rate. However, the exchange rate has regrettably played only a limited role in the external adjustment process. The exchange rate does not fully reflect forces of supply and demand, as appreciation clearly seems to be impeded by limitations on capital flows and on foreign exchange transactions.

In the Treasury Department's judgement, intermittent central bank intervention in the exchange market to dampen the rate of appreciation and smooth out exchange rate movements have served to further constrain demand for the New Taiwan (NT) dollar. This combination of official practices and restrictions contributes directly to Taiwan's efforts to generate the trade surpluses it views as essential for reserve accumulation and impedes adjustment of the bilateral trade imbalance.

Trade and Economic Developments

After declining in 1990, Taiwan's overall external surpluses rose in 1991. According to its data, Taiwan's overall trade surplus for 1991 increased to $13.3 billion, a 6.4 percent increase over 1990. Taiwan's global current account surplus increased by 11.6 percent in 1991 to $12.0 billion, and remained at 6.7 percent of GNP. Taiwan's bilateral trade balance with the United States declined at a modest pace in 1991. According to U.S. statistics, the U.S. trade deficit with Taiwan in 1991 was, at $9.8 billion, 11.9 percent lower than in 1990.

Taiwan's trade surplus with the United States has increased in 1992, as foreseen in the spring 1992 report. U.S. data indicate that the bilateral trade surplus increased 12.0 percent to $6.7 billion in the first 8 months of 1992, compared to $6.0 billion in the corresponding period in 1991. This has occurred despite slow growth in the U.S. economy, the ongoing relocation of Taiwan's labor-intensive export industries overseas, and rising wages and production costs and continued inflationary pressures in Taiwan.

Taiwan's official foreign exchange reserves, already the world's largest, increased significantly over the last year to reach $89.5 billion at the end of September 1992 (sufficient to cover 18 months of imports), compared to $83 billion at the time of the spring 1992 report. For purposes of comparison, the industrial countries on average hold non-gold reserves equivalent to 2-3 months of import cover.

Based on data for the first half of 1992, which show a decline of 27 percent, Taiwan's current account surplus is likely to decrease in 1992 due to a reduction in the overall merchandise trade surplus and an increase in the services deficit. The economy should continue to grow rapidly; real GDP is expected to expand by roughly 7 percent in 1992, following 7.3 percent growth in 1991. Inflation averaged 3.5 percent in 1991 and increased to an average of 4.9 percent over the first three quarters of 1992.

Exchange Rate Developments

The NT dollar has depreciated by 0.7 percent since the last report; the exchange rate stood at NT$25.27/US$1 on October 16. The cumulative appreciation of the NT dollar since the end of 1991 is 1.9 percent.

Since the last report, the Central Bank reportedly continued to intervene directly and indirectly in the exchange market. In addition, market pressures for appreciation have been resisted through continuing controls over capital flows, tight ceilings on the foreign exchange liabilities of all banks, and limitations on the scope of the forward foreign exchange market. The dampening role these measures play in the exchange market are in the judgement of the Treasury Department significant and serve as continued evidence of the unwillingness of the Taiwan authorities to rely on a market-determined exchange rate.

Given the strength of Taiwan's economic fundamentals -- strong economic growth, continued large trade and current account surpluses, large and growing foreign exchange reserves, and a stable political environment -- the depreciation of the NT dollar since mid-July cannot be fully explained by the decline in Taiwan's overall trade and current account imbalances during 1992.

In this regard, the monetary authorities have been forced to formulate exchange rate and monetary policies against the background of political pressure from powerful exporters complaining of declining competitiveness. However, the evidence does not seem to support fears that the nominal appreciation of the NT dollar has seriously damaged the competitiveness of Taiwan's economy. Though the NT dollar appreciated more than 16 percent between September 1987 and September 1992, the real exchange rate has depreciated over the same period, indicating that Taiwan has become slightly more competitive in global markets. In 1992, Taiwan's global exports through September have increased by 7.5 percent over the comparable period in 1991. According to U.S. data through August, Taiwan's exports to the U.S. market have increased by 11 percent, outpacing overall U.S. import growth, which is up 8.3 percent. As economic growth improves in the United States and Europe in coming months, Taiwan's exports should continue to perform well.

Nor has appreciation of the NT dollar led to a loss of jobs in the domestic economy. With an unemployment rate under 2 percent, the labor market remains tight, leading the authorities to permit an increase in the number of foreign workers in Taiwan. Wages, on average, are increasing by more than 10 percent annually. Taiwan's continued competitiveness provides the monetary authorities with sufficient scope to permit needed exchange rate adjustments without spurring a decline in exports.

Exchange Rate System

Taiwan has instituted a number of measures over the past several years to liberalize the exchange rate system and reduce capital controls. Nevertheless, the system still does not allow the full effect of market forces to be reflected in the exchange rate. Although the rate for foreign exchange transactions is freely determined between buyers and sellers, an array of official practices and restrictions remains which serves to resist pressures for appreciation generated by underlying economic fundamentals. The Central Bank continues to resist pressure for appreciation by intervening in exchange markets directly and indirectly, setting ceilings on the foreign exchange liabilities of foreign banks, limiting the operation of the forward foreign exchange market, and regulating capital flows. With economic fundamentals enhancing the stability of Taiwan's markets, the utility of these various controls and restrictions appears questionable.

The Central Bank needs to increase the transparency of its operations if it wishes to disprove the widespread view that it intervenes in the market directly and through proxies (such as local banks), or that it has on occasion attempted to control the timing of large-scale NT dollar purchases by local market participants in order to dampen pressures for appreciation. In this regard, it appears that the monetary authorities continued to limit appreciation of the NT dollar on a number of occasions between the spring 1992 report and mid-July.

As noted earlier, a number of restrictions severely constrain forward foreign exchange trading and the scope of the forward foreign exchange market, and thus serve to limit the role of market forces in exchange rate determination. Most importantly, foreign exchange liabilities ceilings, which vary from bank to bank, still affect forward trading, and constrain the ability of foreign branches to offer foreign currency loans in Taiwan and to use swap funding for local currency lending. In place of the quantitative limits imposed by these ceilings, prudential concerns in this area could be addressed through other means, such as through risk-based capital requirements that apply to the financial institution as a whole.

The scope of the forward foreign exchange market is further restricted by a number of rules that prohibit transactions for non-trade-related purposes, limit trading to authorized banks, impose a sizeable deposit guarantee, and limit the maximum forward period to 180 days. These restrictions have a particularly adverse effect on foreign banks and securities firms both in and outside of Taiwan, as they are prevented from hedging capital in the onshore market.

Until October 1992, Taiwan restricted annual non-trade-related capital inflows and outflows to $3 million per firm or individual (capital flows for trade purposes are unlimited). On October 9, the limit was raised to $5 million, a welcome but marginal improvement. Taiwan also limits the amount of cash an individual can carry in and out of Taiwan (NT$40,000 or about $1,600).

Restrictions imposed by the Central Bank have hindered the ability of foreign institutional investors to make investments in Taiwan. (In recognition of the strong long-term prospects of Taiwan's economy, foreign institutional investors wish to make long-term and large-scale investments in NT dollar-denominated financial instruments.)

<u>Assessment</u>

It is Treasury's judgment that Taiwan is manipulating its exchange rate within the meaning of Section 3004. In the context of Taiwan's continued large overall trade and current account surpluses, a large and increasing bilateral trade surplus with the United States, and excessive foreign exchange reserves, continued official action that directly interferes with the role of market forces in exchange rate determination, such as direct and indirect intervention in the foreign exchange market, must be viewed as an effort by the authorities to inhibit effective balance of payments adjustment.

Subsequent to issuance of the spring 1992 report, the Treasury Department has held two sessions of negotiations with the Taiwan authorities to seek an end to practices that inhibit the operation of market forces in exchange rate determination, capital flows, and foreign exchange transactions, as well as substantial appreciation of the NT dollar. During these negotiations, the Taiwan authorities provided indications that they would review their practices and restrictions to assess changes that might be necessary. However, Taiwan has not yet committed to specific measures that would address fully the concerns raised in the spring 1992 report.

Some adjustment in Taiwan's overall trade and current account imbalances appears likely this year. However, Taiwan's bilateral trade surplus with the United States has increased in 1992, reversing the reductions achieved in 1990 and again in 1991. Taiwan's immense and growing foreign exchange reserves are excessive, especially given the investment needs of the economy. The existence of continued large external surpluses indicates a continued need for substantial adjustment, and for significant appreciation of the NT dollar to bring this adjustment about.

In the present context, the continuation of official actions and controls that impede market adjustment of the exchange rate are factors which are considered in the Treasury Department's assessment of the adjustment process. In addition to official action, the array of limitations on foreign exchange transactions and capital flows is far too restrictive and impedes the full operation of market forces in exchange rate determination. Given the advanced state of economic development on Taiwan, and the oft-stated desire of the authorities to develop Taipei as a regional financial center, such limitations should be completely lifted.

As noted in Treasury's spring 1992 report, to encourage a continued decline in Taiwan's overall surpluses and promptly effect an appropriate adjustment in its bilateral trade surplus with the United States, the authorities should take steps that would allow the exchange rate to reflect fully market forces. Specifically, they should cease direct and indirect intervention in the exchange market for the purposes of dampening pressures for appreciation, eliminate foreign exchange liabilities ceilings for foreign banks, remove other limitations that restrict the scope of the forward foreign exchange market, and reduce controls on capital inflows and outflows, while making a commitment to phase out the controls completely.

Financial Policy Talks

Taiwan's exchange rate policies are just one source of the discriminatory treatment faced by foreign banks and securities firms. The exchange rate negotiations with the authorities initiated as a result of the spring 1992 report supplement ongoing financial policy talks between the Treasury Department and Taiwan's authorities under the auspices of the American Institute in Taiwan and the Coordinating Council on North American Affairs. These talks provide a forum for addressing specific market access problems encountered by U.S. banks and securities firms in Taiwan, and for encouraging Taiwan's authorities to undertake further liberalization of its financial and exchange markets, and of restrictions on capital flows.

Since the spring 1992 report, and following a round of discussions in Taipei earlier in the year, Taiwan moved to allow all banks, including foreign banks, to process credit card transactions and to deal in short-term money market instruments. These measures directly address concerns raised by the Treasury

Department, and will expand the scope of opportunities available to foreign banks in Taiwan. Nevertheless, U.S. financial services firms continue to face significant denials of national treatment in addition to the constraints imposed by Taiwan's controls on foreign exchange transactions and capital flows. From a broader perspective, Taiwan has approved several other measures that will further modernize the financial sector. Foreign exchange licenses are now available to a wider range of domestic banks, legislation to establish a futures market has been approved by the Legislative Yuan, and gold trading has been deregulated.

CHINA

China's substantial external surpluses remain a source of serious concern. These surpluses result in large part from pervasive administrative controls maintained by the Chinese authorities on imports and on foreign exchange allocation. In addition, balance of payments adjustment in China has been hindered by an exchange rate system which encompasses a government-determined official exchange rate and an exchange rate determined in the nation's foreign exchange swap centers, where both the supply of, and the demand for, foreign exchange are substantially controlled by the government.

Since the spring 1992 report, the Treasury Department has negotiated with the Chinese authorities on China's system for determining foreign exchange rates and foreign exchange allocation. The goal has been to seek a more market-oriented system and exchange rate, and to promote significant adjustment in China's overall external surplus and its bilateral trade surplus with the United States.

Trade and Economic Developments

China's global trade and current account surpluses remain large but have fallen from their record levels in 1990 and 1991. According to Chinese data (which are not consistent with U.S. trade data -- see below), the merchandise trade surplus in the first 9 months of 1992 fell to an estimated $5.4 billion from $6.1 billion in the same period of last year. Imports increased 21 percent in the January-September period, supported by higher economic growth in China, while exports have also remained strong, rising some 17 percent. China's overall trade surplus for 1992 is expected to be around $7 billion, compared to $8.7 billion in 1991.

China's current account surplus will likely remain large in 1992, although, in line with the smaller trade surplus, it is expected to decline from its 1991 level of $13.8 billion. The continuing surpluses have contributed to a build-up of China's official reserves, which totaled about $47 billion, or about 8 months' import cover, in July of this year. China's large current account surpluses have allowed China to meet its debt service obligations. While debt service as a percentage of export earnings has increased slightly in recent years, the ratio still remained a modest 8.7 percent in 1991.

In contrast to the narrowing of the global trade gap, China's bilateral trade surplus with the United States continues to grow at a rapid pace. According to U.S. data, China's bilateral surplus in the first 8 months of 1992 totaled $11.2 billion, an increase of 56 percent over the same period of 1991. A 41 percent surge in U.S. imports from China, despite relatively slow U.S. growth, combined with a slowdown to 15 percent in U.S. export growth to China, explains the widening of the bilateral trade gap. Toys, sporting goods, clothing, and footwear led the rapid growth in U.S. imports from China. If these rates of growth were to continue throughout 1992, the bilateral gap would approach $17 billion by the end of the year, compared to $12.7 billion in 1991.

The pattern of China's trade with other major trading partners differed substantially. In the first 5 months of 1992, China's trade surplus with the EC grew by 8 percent, after surging 78 percent in 1991. China's surplus with Japan fell 21 percent in January-May 1992, while its surplus with Hong Kong rose 4 percent. Thus, the expansion in the U.S. trade imbalance with China was very large compared to the changes in China's trade balances with other partners. The growth in Chinese exports to the U.S. was much faster than export growth to other destinations, and the growth of China's imports from the U.S. was slower than import growth from other sources.

It is important to note that there are large discrepancies between Chinese and U.S. trade data, including differences in treatment of re-exports through Hong Kong and other countries. (The United States counts Chinese exports through Hong Kong as products of China if they are not substantially transformed in Hong Kong or elsewhere, while China apparently does not include some portion of these products in its export figures.) China itself continues to claim a small trade deficit with the United States through the first half of 1992. However, Chinese statistics reveal trends in bilateral trade flows similar to those of U.S. data: according to Chinese figures, exports to the United States rose 32 percent in the first half, while imports grew 21 percent.

In other economic developments, boosted by a renewed reform drive beginning early in the year, China's real GNP grew at an estimated annual rate of nearly 12 percent in the first half of 1992. Growth is likely to top 10 percent for all of 1992, greatly exceeding the original target of 6 percent in the current Five-Year Plan. Accelerated growth has raised concerns about renewed inflation, although the rise in the retail price index (a weighted average of administered, guided, and market prices) in the first half of 1992 was running at only a 5 percent annual rate.

Exchange Rate System

China's administered exchange rate, set daily by the central exchange authorities, generally applies to trade transactions under the State Plan. There is also a second rate determined in foreign exchange adjustment ("swap") centers, where joint ventures and other enterprises with foreign participation, domestic entities that are allowed to retain rights to their foreign exchange earnings, and certain individuals may buy and sell foreign exchange or foreign exchange quotas at rates established through a regulated auction system. Outside the official dual rate system, there is a black market for foreign exchange, which is apparently diminishing in significance but is still sizable.

The authorities use a variety of means to control the allocation of foreign exchange under the dual rate system. Foreign exchange earned by a state enterprise must initially be surrendered to the Bank of China in exchange for local currency at the administered rate. After each sale, the government gives the enterprise a foreign exchange quota according to a retention ratio determined by the government. Retention ratios vary greatly among regions, firms, and products. Domestic firms are permitted to trade only retention quotas among themselves rather than foreign exchange itself.

The authorities also restrict access to the nation's swap centers for prospective buyers and sellers of foreign exchange. Foreign exchange may be purchased in the swap centers only for the importation of goods deemed by the state to be "necessary" for China's development. Swap center purchases of foreign exchange for non-trade-related foreign exchange transactions are restricted. And foreign exchange flows among swap centers in different parts of the country are limited.

These controls on the demand for, and supply of, foreign exchange in the swap centers clearly affect the swap rate itself, which therefore cannot be called a market-determined exchange rate. Moreover, the authorities are positioned to influence the swap rate more directly by intervening in the market or shutting down trading if fluctuations in the rate extend beyond set bands.

For a more detailed description of China's dual exchange rate system, see Treasury's fall 1991 exchange rate report.

Exchange Rate Developments

Administered Rate: On October 16, 1992, the official rate of the renminbi stood at 5.55 yuan to the U.S. dollar. This represents a nominal depreciation against the dollar of roughly 5 percent since the adoption of the "managed float" system in April 1991. However, since the start of this year, the Chinese authorities have held the official rate within a relatively narrow range, generally between 5.45 and 5.55 yuan per dollar.

Swap Rates: For the week ending October 17, 1992, the average swap center rate stood at 6.91 yuan per U.S. dollar. This represents a depreciation of some 20 percent since the start of the year. Swap rates began to depreciate briskly in the spring, as demand for foreign exchange -- boosted by the domestic expansion and resulting growth in imports -- greatly outstripped supply. The depreciation slowed somewhat in September as state enterprises began to supply more foreign exchange to the swap centers and as demand for imports eased slightly.

Having narrowed to less than 10 percent by the beginning of 1992, the spread between the official and swap rates has again widened to about 25 percent.

Controls on Foreign Exchange Allocation and External Trade

China's foreign exchange regime must be viewed in conjunction with its direct controls over imports. The two sets of controls are often overlapping and redundant.

For example, an importer wishing to obtain foreign exchange for non-priority imports must obtain not only approval from the exchange authorities but also an import license from the trade ministry and explicit approval from the ministry responsible for enterprises producing domestic substitutes. The various approval processes do not necessarily operate consistently. Possession of an import license does not guarantee that an importer will be allocated foreign exchange, nor does approval of foreign exchange use automatically entitle the importer to a license. In practice, it appears that the strict import licensing system is often the most significant obstacle to the importer's ability to obtain foreign exchange. Thus an effort to remove foreign exchange controls without a complementary effort to address direct trade restrictions is unlikely to result in a significant adjustment in China's trade flows.

Assessment

China's large trade and current account surpluses, particularly its rapidly growing bilateral trade surplus with the United States, remain developments of major concern. Surpluses of this magnitude create serious trade tensions and must be reduced.

A principal cause of China's surpluses is the network of pervasive administrative controls over external trade, which severely inhibit China's imports, including those from the United States. On October 10, 1992, under authority provided by Section 301 of the Trade Act of 1988, the United States and China signed a Memorandum of Understanding (MOU) which commits China to remove a substantial number of China's external trade barriers. The MOU calls for China to: progressively remove the majority of its nontariff trade barriers such as quotas, import licensing requirements, and other restrictions on imports; enhance the transparency of its trade regime by publishing all trade laws, regulations, and policies; reduce tariffs on a range of products exported by U.S. firms; and eliminate standards and testing requirements as barriers to trade. When fully implemented, the MOU will have achieved a major step toward eliminating China's direct trade controls and should contribute to external surplus reduction.

In Treasury's view, the Chinese authorities also employ exchange rate and foreign exchange policies to attain their balance of payments objectives.

Despite continued large external surpluses which first emerged in 1990, the administered rate of the renminbi remains significantly devalued below its level at end-1989 when it stood at 4.72 yuan per dollar. However, the administered rate has changed very little since the time of the spring 1992 exchange rate report. (The rate was 5.48 yuan per dollar in mid-April 1992.) That report recommended that "China should suspend further devaluation of the administered rate until far-reaching reform of China's trade, exchange, and domestic price regimes has been undertaken...." In this regard, Treasury recognizes and welcomes the fact that there has been no further devaluation. Until far-reaching reform of China's trade and domestic price regimes has been implemented, Treasury continues to find that no further devaluation of the administered rate is warranted.

The Chinese authorities also influence the exchange rate in the nation's swap centers by controlling both the demand for, and supply of, foreign exchange. The average swap center rate has not appreciated over the past two years, notwithstanding the large current account surpluses and resulting build-up of foreign exchange reserves. The limited response of exchange rates to market forces impedes China's balance of payments adjustment.

In the spring 1992 report, the Treasury Department recommended that the Chinese authorities take a number of concrete measures to permit the exchange rate in swap centers to reflect market forces more fully. These included: eliminating the foreign exchange quota system and moving to a complete foreign exchange cash retention system; removing restrictions on access to the foreign exchange swap centers and on use of foreign exchange for specific trade and other purposes; eliminating restrictions on foreign exchange flows among swap centers around the country; and publishing all laws and regulations pertaining to foreign exchange, as well as making any proposed changes available to the public in advance for review.

Chinese officials have expressed support for general reform objectives: a phasing-out of the administered exchange rate, unification of the dual exchange rate system, liberalization of access to the swap centers, and making foreign exchange regulations more transparent. However, the Chinese authorities have not yet indicated the specific nature and scope of the measures they are contemplating to achieve these objectives, or the timing of such measures. Therefore, Treasury has insufficient basis to change its previous determination.

It is Treasury's judgment that China is manipulating its exchange rate within the meaning of Sections 3004. Given the size of China's external payments surpluses and the level of its foreign exchange reserves, continued use of the administered exchange rate and of regulated swap center rates must be viewed as an effort by the authorities to frustrate effective balance of payments adjustment.

Subsequent to the issuance of the spring 1992 report, the Treasury Department has held two sessions of negotiations with the Chinese authorities to seek substantial progress toward a more market-oriented system of exchange rate determination and foreign exchange allocation, which will contribute to a reduction in large Chinese external imbalances.

The Treasury will continue to engage the Chinese authorities in negotiations aimed at implementation of specific actions to achieve these objectives in the near future.

PART VI: CONCLUSIONS

Over the past year, the United States has successfully achieved a global consensus to strengthen the world economy. Significant measures are now being implemented to ensure the economic recovery underway gathers strength. At the same time, the U.S. is initiating a review of developments in international capital markets with a view toward considering ways to improve economic policy coordination.

A number of positive developments have begun to emerge in the major economies. In the United States, which has experienced six successive quarters of expansion, inflation and short-term interest rates are at their lowest levels in 25 years, providing a solid foundation for a pick-up in investment and growth. Interest rates have been reduced in other major countries, and the scope for further reductions appears to exist. Recent cuts in German interest rates represent a significant shift in direction that could lead to lower rates throughout Europe, stimulating economic activity in major U.S. export markets.

Japan's announcement of a large fiscal stimulus is a welcomed step toward reinvigorating growth in that country while providing a basis for a reduction in its external surplus.

These efforts are steps in the right direction, but more must be done to assure the recovery gathers strength. A sound and growing world economy is necessary to create new jobs and economic opportunity in the major economies and to support the historic movement to free markets and democracy taking place around the world. Recent events highlighting the interdependent and rapidly changing nature of the world economy confirm the need to strengthen economic policy coordination.

The G-7 process has achieved some considerable successes. In the latter part of the 1980s, it played a central role in reducing divergences in policy and performances among the major economies. As a result, economic expansion was sustained over an extended period, external imbalances were reduced, price stability was restored, and exchange markets became more stable.

More recently, the G-7 has achieved a new consensus on reducing policy differences that have inhibited growth. Solid measures are being implemented to fulfill the commitment of the Munich Summit to higher growth and job creation.

Changes in the world economy will require further consideration of ways to ensure strong economic policy coordination in response to evolving developments and new challenges. As recent events have made clear, global capital markets have grown increasingly large, complex, and integrated. New instruments and channels for capital flows have greatly expanded the scope and speed of market movements. A better understanding of these changes and their implications is needed to provide policymakers a sound basis for developing policies compatible with sustained global growth.

At Secretary Brady's initiative, the G-10 will undertake a study of global capital flows and their implications over the next few months. This analysis will assist G-7 Finance Ministers leading up to the Tokyo Summit to consider ways in which cooperation might be intensified and obstacles to growth removed.

In addition to the major industrial countries, major trading countries like Korea, Taiwan, and China have an important role to play in promoting a healthy, open global economy and adjustment in external imbalances. In this report, Treasury has reviewed the foreign exchange and exchange rate policies of these countries and has assessed whether they are manipulating their exchange rates, within the meaning of Section 3004 of the Omnibus Trade and Competitiveness Act of 1988, to prevent effective balance of payments adjustment or gain unfair competitive advantage in international trade.

Korea's current account has undergone substantial adjustment since 1989, shifting from a surplus of 2.4 percent of GNP in 1989 to a deficit of 3.1 percent of GNP in 1991. Korea's trade deficit, which reached $7 billion on a balance of payments basis (2.5 percent of GNP) at the end of 1991, is expected to shrink to $2.5 billion in 1992. Notably, first half export growth outpaced import growth for the first time in four years. Korean authorities anticipate external surpluses by mid-decade.

According to U.S. data, the U.S. bilateral trade deficit with Korea in 1991 fell to $1.5 billion, down 63 percent from 1990. In the first eight months of 1992, U.S. data showed a trade deficit with Korea of $1.0 billion, compared to a deficit of $869 million during the same period in 1991.

There is no basis at this time for the Treasury Department to conclude under Section 3004 that Korea is manipulating its exchange rate for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade. This assessment is based on the following factors: the continuance of significant global trade and current deficits, the lack of evidence that the Bank of Korea is intervening directly in the exchange market, and the modest role of other government-owned foreign exchange banks in the market.

Nonetheless, although the exchange rate determination system in place in Korea is an improvement over the previous regime, it is far from a truly market-determined one. In particular, Treasury remains seriously concerned that pervasive foreign exchange and capital controls significantly constrain supply and demand in the currency market and provide the potential for manipulation.

Liberalization of these controls -- especially the "real demand" rule for foreign exchange transactions -- is imperative to strengthen the role of market forces in exchange rate determination and in Korea's trade and investment flows. In this regard, the extensive list of restricted foreign exchange transactions embodied in the regulations implementing the revised FEMA is disappointing.

Therefore, in the period ahead, the Treasury Department will continue to monitor developments in Korea's external accounts and the operation of the MAR exchange rate system. We will also continue to press for liberalization of Korea's financial, capital, and exchange markets, as well as to seek improved treatment for U.S. financial institutions in Korea.

Some adjustment in **Taiwan's** overall trade and current account imbalances appears likely this year. Data for the first half of 1992 show a decline of 27 percent in Taiwan's current account surplus. However, Taiwan's bilateral trade surplus with the U.S., $9.8 billion in 1991, has increased in 1992, reversing the reductions achieved in 1990 and again in 1991. Taiwan's immense and growing foreign exchange reserves are excessive, especially given the investment needs of the economy. The existence of continued large external surpluses indicates a continued need for substantial adjustment, and for significant appreciation of the NT dollar to help achieve this adjustment.

It is Treasury's judgment that Taiwan is manipulating its exchange rate within the meaning of Section 3004. In the context of Taiwan's continued large overall trade and current account surpluses, a large and increasing bilateral trade surplus with the United States, and excessive foreign exchange reserves, continued official action that directly interferes with the role of market forces in exchange rate determination, such as direct and indirect intervention in the foreign exchange market, must be viewed as an effort by the authorities to inhibit effective balance of payments adjustment.

Subsequent to the issuance of the spring 1992 report, the Treasury Department has held two sessions of negotiations with the Taiwan authorities to seek an end to practices that inhibit the operation of market forces in exchange rate determination, capital flows, and foreign exchange transactions, and that prevent substantial appreciation of the NT dollar.

During these negotiations, the Taiwan authorities indicated that they would review their practices and restrictions to assess changes that might be necessary. However, Taiwan has not yet committed to specific measures that would address fully the concerns raised in the spring 1992 report.

As noted in Treasury's spring 1992 report, to encourage a continued decline in Taiwan's overall surpluses and promptly effect an appropriate adjustment in its bilateral trade surplus with the

United States, the authorities should take steps that would allow the exchange rate to reflect market forces fully. In addition to intervention in exchange markets, the limitations on foreign exchange transactions and capital flows are far too restrictive and impede the full operation of market forces in exchange rate determination. Specifically, the authorities should cease direct and indirect intervention in the exchange market for the purpose of dampening pressures for appreciation, eliminate foreign exchange liabilities ceilings for foreign banks, remove other limitations that restrict the scope of the forward foreign exchange market, and reduce controls on capital inflows and outflows, while making a commitment to phase out the controls completely. The Treasury Department will continue to engage the Taiwan authorities in negotiations aimed at implementation of these reforms.

China's large trade and current account surpluses, particularly its rapidly growing bilateral trade surplus with the United States, remain developments of major concern. China's surplus with the United States reached $11.2 billion in the first eight months of 1992, an increase of 56 percent over January-August 1991. Surpluses of this magnitude create serious trade tensions and must be reduced. A principal cause of China's surpluses is the network of pervasive administrative controls over external trade, which severely inhibit China's imports, including those from the United States. In Treasury's view, the Chinese authorities also employ exchange rate and foreign exchange policies to attain their balance of payments objectives.

Despite continued large external surpluses which first emerged in 1990, the administered rate of the renminbi, 5.55 yuan per dollar in mid-October, remains significantly devalued below its level at end-1989 when it stood at 4.72 yuan per dollar. However, the administered rate has changed very little since the time of the spring 1992 exchange rate report. That report recommended that "China should suspend further devaluation of the administered rate until far-reaching reform of China's trade, exchange, and domestic price regimes has been undertaken...." In this regard, Treasury recognizes and welcomes the fact that there has been no further devaluation. Until far-reaching reform of China's trade and domestic price regimes has been implemented, Treasury continues to find that no further devaluation of the administered rate is warranted.

The Chinese authorities also influence the exchange rate in the nation's swap centers by controlling both the demand for, and supply of, foreign exchange. The average swap center rate has not appreciated over the past two years, notwithstanding the large current account surpluses and resulting build-up of foreign exchange reserves. The limited response of exchange rates to market forces impedes China's balance of payments adjustment.

In the spring 1992 report, the Treasury Department recommended that the Chinese authorities take a number of concrete measures to permit the exchange rate in swap centers to reflect market forces more fully. These include: eliminating the foreign exchange quota system and moving to a complete foreign exchange cash retention system; removing restrictions on access to the foreign exchange swap centers and on use of foreign exchange for specific trade and other purposes; eliminating restrictions on foreign exchange flows among swap centers around the country; and publishing all laws and regulations pertaining to foreign exchange, as well as making any proposed changes available to the public in advance for review.

Chinese officials have expressed support for general reform objectives, but have not yet indicated the specific nature and scope of the measures they are contemplating to achieve these objectives, or the timing of such measures. Therefore, Treasury has insufficient basis to change its previous determination.

It is Treasury's judgment that China is manipulating its exchange rate within the meaning of Section 3004. Given the size of China's external payments surpluses and the level of its foreign exchange reserves, continued use of the administered exchange rate and of regulated swap center rates must be viewed as an effort by the authorities to frustrate effective balance of payments adjustment.

Subsequent to the issuance of the spring 1992 report, the Treasury Department has held two sessions of negotiations with the Chinese authorities to seek substantial progress toward a more market-oriented system of exchange rate determination and foreign exchange allocation, which will contribute to a reduction in large Chinese external imbalances.

The Treasury will continue to engage the Chinese authorities in negotiations aimed at implementation of specific actions to achieve these objectives in the near future.

APPENDIX

TABLES AND CHART

1. Economic Performance of Key Industrial Countries
2. Measurements of Dollar Movements Versus G-7 Countries
3. Summary of U.S. Current Account
4. Summary of U.S. Capital Account Flows
5. Asian NIEs and China: Trade and Currency Changes
6. Chart: Real Trade-Weighted Exchange Rate Indices for the Dollar, Yen, and DM

Table 1

ECONOMIC PERFORMANCE
OF MAJOR INDUSTRIAL COUNTRIES

I. Real GNP/GDP (percent change; annual average)

	1991	1992	1993
United States	-1.2	1.9	3.1
Japan	4.4	2.0	3.8
Germany*	0.9	1.8	2.6
France	1.2	2.2	2.7
United Kingdom	-2.2	-0.8	2.1
Italy	1.4	1.3	1.5
Canada	-1.7	2.1	4.4
Total G-7	0.6	1.7	3.0

II. Consumer Prices (percent change; annual average)

United States	4.3	3.1	3.1
Japan	3.3	2.2	2.4
Germany*	4.5	4.9	4.2
France	3.1	2.9	2.8
United Kingdom	5.9	3.8	3.0
Italy	6.3	5.6	5.1
Canada	5.6	1.6	2.0
Total G-7	4.3	3.3	3.2

III. Current Account ($ billions and percent of GDP)

United States	-4†	-35	-55
	(0.1)	(0.6)	(0.9)
Japan	73	110	101
	(2.2)	(3.0)	(2.6)
Germany*	-20	-22	-9
	(1.2)	(1.1)	(0.4)
France	-6	-1	-0
	(0.5)	(0.1)	(0.0)
United Kingdom	-11	-19	-19
	(1.1)	(1.7)	(1.6)
Italy	-21	-25	-33
	(1.8)	(1.9)	(2.4)
Canada	-26	-20	-21
	(4.3)	(3.4)	(3.3)

SOURCE: IMF World Economic Outlook. Comparable Administration forecasts for 1992 U.S. growth and inflation are 2.0% and 3.0% respectively, and for 1993, 3.0% and 3.2% respectively.

* All of Germany

† Reflects extraordinary Desert Storm receipts of $42 billion.

Table 2

Dollar Exchange Rates
vs. G-7 Currencies
At Key Dates
(units per dollar)

Value of the Dollar in Terms of:	Dollar Peak 2/26/85	Plaza Accord 9/20/85	Louvre Accord 2/20/87	Year Since 10/18/91	Previous Report 4/17/92	Dollar Lows 9/2/92	Current Report 10/15/92
Japanese yen	261.55	241.00	153.60	130.02	133.88	122.20	120.60
German mark	3.4730	2.8575	1.8272	1.6928	1.6682	1.3865	1.4505
British pound	0.9606	0.7326	0.6542	0.5813	0.5726	0.4980	0.5882
French franc	10.6100	8.7150	6.0860	5.7668	5.6400	4.7380	4.9455
Italian lira	2169.50	1924.00	1299.00	1265.55	1254.50	1063.00	1287.50
Canadian dollar	1.4043	1.3763	1.3282	1.1286	1.1818	1.1952	1.2488

Measurements of Dollar Movements
Vs. G-7 Currencies
Percent Appreciation (+) or Depreciation (–)
(through 10/15/92)

Value of the Dollar in Terms of:	Since Dollar Peak 2/26/85	Since Plaza Accord 9/20/85	Since Louvre Accord 2/20/87	Over Year Since 10/18/91	Since Previous Report 4/17/92	Since Dollar Low 9/2/92
Japanese yen	–53.9%	–50.0%	–21.5%	–7.2%	–9.9%	–1.3%
German mark	–58.2%	–49.2%	–20.6%	–14.3%	–13.0%	4.6%
British pound	–38.8%	–19.7%	–10.1%	1.2%	2.7%	18.1%
French franc	–53.4%	–43.3%	–18.7%	–14.2%	–12.3%	4.4%
Italian lira	–40.7%	–33.1%	–0.9%	1.7%	2.6%	21.1%
Canadian dollar	–11.1%	–9.3%	–6.0%	10.7%	5.7%	4.5%

Source: New York 9:00 a.m. exchange rates

Table 3

30-Oct-92

SUMMARY OF U.S. CURRENT ACCOUNT
(MILLIONS OF DOLLARS, S.A.)

	Quarters								Annual		
	90:3	90:4	91:1	91:2	91:3	91:4	92:1	92:2	1989	1990	1991
Total Exports	96544	100526	100636	103324	104151	107851	107946	107580	361698	388705	415963
Agricultural	9853	9468	9801	9366	10170	10791	10823	10500	42185	40187	40127
NonAgricultural	86691	91058	90836	93959	93981	97061	97123	97080	319513	348518	375836
Total Imports	125434	128303	118962	119721	124325	126390	125168	131998	477365	497557	489398
Petroleum	15461	18217	12924	12937	13122	12195	10368	12965	50920	62298	51178
Non-Petroleum	109973	110086	106038	106784	111203	114195	114800	119033	426445	435259	438220
TRADE BALANCE	-28890	-27777	-18326	-16397	-20174	-18539	-17222	-24418	-115667	-108852	-73435
Partial Bal (Excl. Ag Exps & Pet imps	-23282	-19028	-15202	-12826	-17222	-17134	-17677	-21953	-106932	-86741	-62384
Net Services	12113	16811	16320	14713	15100	15595	18317	14349	40134	51339	61728
Invest. Income	4224	7532	6965	3931	3076	2458	4474	1377	14367	19284	16430
Other Services	7889	9279	9355	10782	12024	13137	13843	12972	25767	32055	45298
Total Transfers	-7201	-11778	14199	4115	-6012	-4273	-6999	-7719	-25608	-32918	8029
Remits & Pensions	-4095	-3678	-3982	-4099	-4026	-4351	-4379	-4708	-14834	-15322	-16458
Govt Grants	-3106	-8100	18181	8214	-1986	78	-2620	-3011	-10774	-17596	24487
NET INVISIBLES	4912	5033	30519	18828	9088	11322	11318	6630	14526	18421	69757
CURRENT ACCOUNT	-23978	-22744	12193	2431	-11086	-7217	-5904	-17788	-101141	-90431	-3678
Desert shield support incl. in in transfers	n.a.	4260	22674	11617	4604	3500	11	n.a.	n.a.	4260	42395

Table 4

30-Oct-92

SUMMARY OF U.S. CAPITAL ACCOUNT FLOWS
(MILLIONS OF DOLLARS, S.A.)

	Quarters								Annual		
	90:3	90:4	91:1	91:2	91:3	91:4	92:1	92:2	1989	1990	1991
US Reserve Assets (Incr(-)Decr(+))	1739	-1091	-353	1014	3877	1225	-1057	1464	-25293	-2158	5763
Other Govt Assets	-337	4179	1073	-420	3180	-437	-38	-209	1270	2305	3396
Foreign Official Assets	14097	20127	5650	-4178	4115	12819	21192	21071	8489	33908	18406
Industrial	13231	12840	-8682	-3309	158	3204	6072	13253	-238	25547	-8629
OPEC	-1699	575	660	-2699	-4288	1023	2459	-2205	10738	2163	-5304
Other	2565	6712	13672	1830	8245	8592	12661	10023	-2011	6198	32339
Banks, net:	17648	-4424	-331	-29257	10911	246	11385	7459	12127	23839	-18431
Claims	-9772	-22976	17909	-1846	2403	-23219	15859	12592	-51255	7469	-4753
Liabilities	27420	18552	-18240	-27411	8508	23465	-4474	-5133	63382	16370	-13678
Securities, net	-3367	-10114	-1814	16718	-3697	-5065	-4980	12587	46315	-29707	6142
Foreign Securities	-1037	-8111	-9526	-11783	-12403	-11305	-8703	-8573	-22070	-28765	-45017
U.S. Treasury Securities	544	-3044	2850	13289	-1306	1408	-828	10288	29618	-2534	16241
Other U.S. Securities	-2874	1041	4862	15212	10012	4832	4551	10872	38767	1592	34918
U.S. Direct Invest. abroad	-16777	-3674	-11994	3681	-7128	-11692	-15075	-11006	-28998	-32694	-27133
Reinvested Earnings	-4719	-5909	-6000	-3993	-3217	-4675	-3657	-4246	-14780	-19469	-17885
Equity & Inter-co. Debt	-12058	2235	-5994	7674	-3911	-7017	-11418	-6760	-14218	-13225	-9248
For. Direct Invest. in U.S.	7471	13093	-1532	7322	29	5680	-3820	5989	67872	45140	11499
Reinvested Earnings	-3325	-6619	-5256	-5122	-4270	-5398	-4459	-2570	-8530	-16284	-20046
Equity & Inter-co. Debt	10796	19712	3724	12444	4299	11078	639	8559	76402	61424	31545
Other U.S.-Corp., net	-52	-6803	821	1029	1277	1994	6706	n.a.	16963	2429	5121
Claims	-4780	-5142	2251	2304	-298	1269	4764	n.a.	11398	-2477	5526
Liabilities	4728	-1661	-1430	-1275	1575	725	1942	n.a.	5565	4906	-405
NET CAPITAL FLOWS	20422	11293	-8480	-4091	12564	4770	14313	37355	98745	43062	4763
Statistical Disc.	3556	11452	-3713	1660	-1478	2447	-8410	-19567	2397	47371	-1084
TOTAL *	23978	22745	-12193	-2431	11086	7217	5903	17788	101142	90433	3679

Table 5

ASIAN NIES AND CHINA: TRADE AND CURRENCY CHANGES

Cumulative Change against US$ as of October 16, 1992 [1]

Since:	(Plaza) 9/20/85	end-86	end-87	(Report) 10/14/88	end-89	end-90	end-91	Rate on 10/16/92	
HK$	1.1%	0.8%	0.4%	1.1%	1.0%	0.9%	0.6%	HK$	7.73
Won	13.8%	9.6%	0.8%	-9.6%	-13.6%	-8.8%	-2.6%	W	785.90
Singapore$	36.9%	34.9%	24.0%	25.7%	18.1%	8.1%	0.8%	S$	1.61
NT$	60.3%	40.5%	13.0%	14.4%	3.5%	7.3%	1.9%	NT$	25.27
Yen	102.0%	33.2%	3.1%	5.5%	19.9%	13.2%	4.2%	Y	119.85
DM	95.3%	31.3%	8.1%	22.1%	14.5%	1.2%	2.9%	DM	1.48
Yuan	-46.6%	-33.0%	-33.0%	-33.0%	-14.8%	-6.0%	-1.9%	Yuan	5.55

1. [-] signifies depreciation against the U.S. dollar.

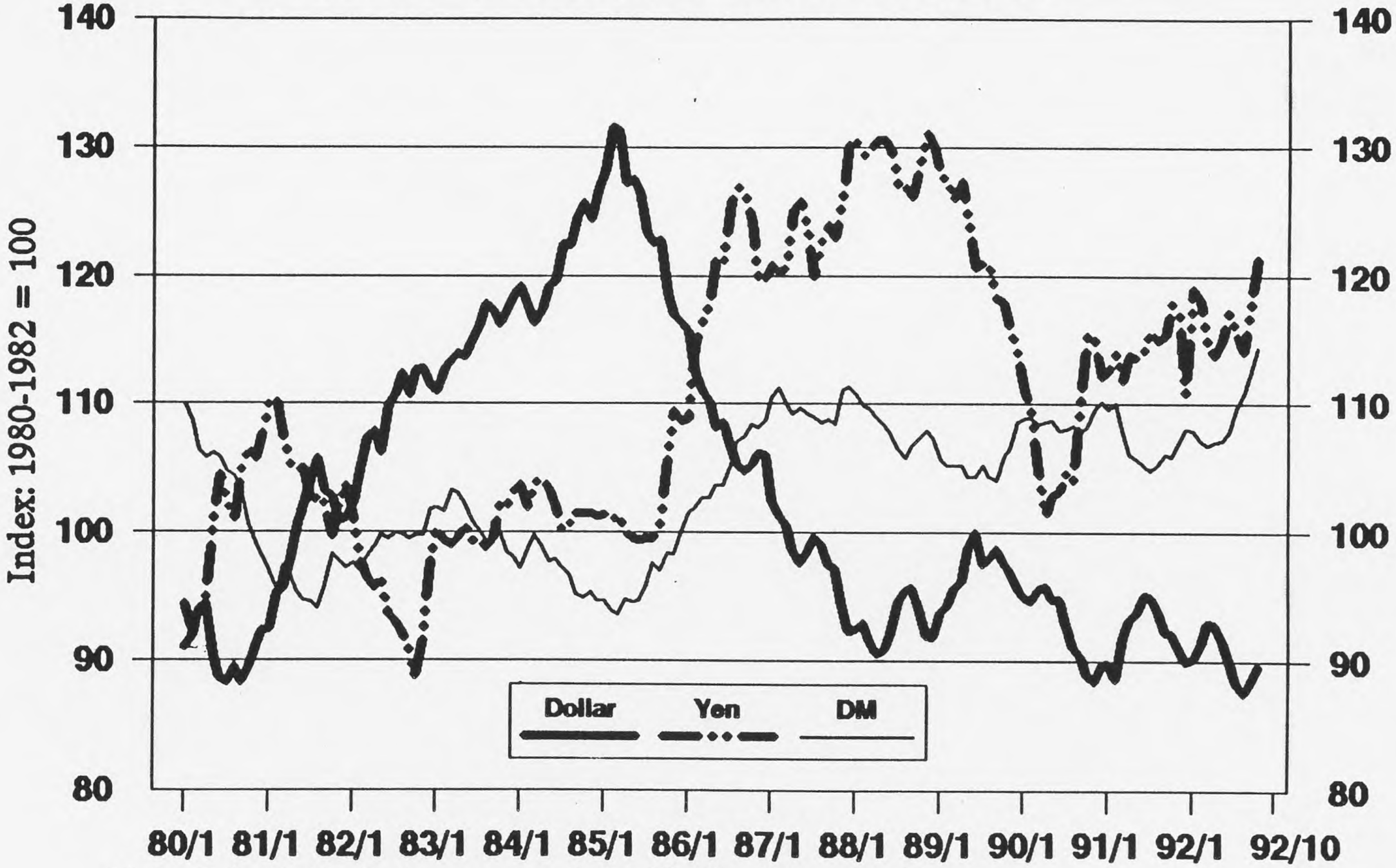
U.S. Trade Balance with Asian NIEs and China [2]

(U.S. $ billions)

	1985	1986	1987	1988	1989	1990	1991	1-8/91	1-8/92
Hong Kong	-5.6	-5.9	-5.9	-4.6	-3.4	-2.8	-1.1	-0.4	-0.4
Korea	-4.1	-6.4	-8.9	-8.9	-6.3	-4.1	-1.5	-0.9	-1.0
Singapore	-0.8	-1.3	-2.1	-2.2	-1.6	-1.8	-1.2	-0.2	-0.9
Taiwan	-11.7	-14.3	-17.2	-12.6	-13.0	-11.2	-9.8	-6.0	-6.7
TOTAL NIEs	-22.1	-27.8	-34.1	-28.2	-24.3	-19.8	-13.7	-7.5	-9.1
China	0	-1.7	-2.8	-3.5	-6.2	-10.4	-12.7	-7.2	-11.2
Total U.S. Trade Bal.	-132.1	-152.7	-152.1	-118.5	-108.6	-101.7	-66.2	-39.2	-48.3
NIEs as % of total U.S. Trade Bal.	17%	18%	22%	24%	22%	20%	21%	19%	19%
China + NIEs as % of Total U.S. Trade Bal.	17%	19%	24%	27%	28%	30%	40%	37%	42%

2. U.S. customs value data, not seasonally adjusted.
Totals may not equal sum of components due to rounding.

Real Trade-weighted Exchange Rate Indices for the Dollar, Yen, and DM from 80/1 to 92/10*



Note: A rise in the index = appreciation/decline in competitiveness;
a fall in the index = depreciation/increase in competitiveness.

*Source: JP Morgan; 1980 trade weights (18 industrial and 22 developing countries; 1980 - 82 = 100. Data are thru October 15, 1992).

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TREASURY NEWS

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REMARKS BY
OLIN L. WETHINGTON
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS
U.S. DEPARTMENT OF THE TREASURY
AT THE MIAMI CONFERENCE ON THE CARIBBEAN
SPONSORED BY CARIBBEAN/LATIN AMERICAN ACTION
MIAMI, FLORIDA
December 1, 1992

It is a pleasure to join you in Miami today for this conference. Today I would like to share with you my thoughts at this time of transition -- a transition in the U.S. political system and, for the Caribbean Basin, a transition in relationships and opportunities. A revolution has taken place in the hemisphere, one characterized by nations living largely in peace, benefitting from democracy, and undergoing an economic transformation based solidly on market forces. In the past year that revolution has moved forward. While the decade of debt and stagnation in Latin America continues to fade into the past, the future -- a future of new opportunities -- is challenging the leadership in the region. I would like to talk today about that future and about some of the challenges and opportunities I see facing the Caribbean Basin.

During the past year reform has continued to accelerate throughout the hemisphere. The self-generated commitment to market-oriented policies by the leaders of Latin America continues to bear fruit in the form of strengthened economies, new competitive opportunities, a more solid foundation for future growth, and stronger, more productive economic and financial relations internationally.

In early 1990, the United States decided that it was time for a new approach to our relationships in the hemisphere. From this recognition came the Enterprise for the Americas Initiative, announced by President Bush in June of 1990. The Initiative, based on a vision of free trade, open investment and growth, has helped serve as a catalyst for results that have exceeded many expectations. Capital inflows into Latin America and the Caribbean, which had more than tripled to $14 billion from 1989 to 1990, roughly tripled again in 1991 to some $42 billion. This unprecedented increase, led by a few countries such as Mexico, Venezuela, and Chile, has now been joined by major flows to countries like Argentina, Colombia, and even Brazil, where high inflation continues to seriously challenge the skills of the economic leadership.

The Enterprise for the Americas Initiative is tangible evidence of our commitment to partnership with the region. Its proposals for action in trade, investment, and debt have been embraced throughout the region and have marked a change in the way the United States and the countries of Latin America and the Caribbean relate to one another.

Historically, United States attention to Latin America and the Caribbean was shaped in large part as a response to perceived threats to its national security -- threats to U.S. trading and investment interests, concerns over the advance of communism and terrorism, concern for the implications of unrestricted pressures on immigration to the United States and of course concerns over the spread of narcotics production and trafficking and other, more direct challenges to the rule of law and democracy. Such threats, together with more altruistic concerns for the quality of life, had prompted the United States to sponsor a variety of new programs to promote economic development in the region since World War II. Even into the 1980s, much of U.S. bilateral assistance to the region was directed to meeting immediate threats to peace and stability in countries like El Salvador and Honduras or keyed to counter narcotics production and trafficking in the region.

Together, we have broken out of this historical pattern with the introduction of Enterprise for the Americas Initiative. We are now actively engaged in economic diplomacy based on partnership and equality rather than on unilateral concessions and dependency -- themes that have all too often characterized policy approaches to the region in the past.

The theme of partnership has been uniformly welcomed in the region as the only credible basis for building strong and resilient economies for the long term. However, some of its consequences and implications have also generated anxiety and concern. In the Caribbean Basin, such concerns have become particularly evident in the area of U.S. trade policy and the implications of NAFTA for other countries.

NAFTA

The trade component of the Enterprise for the Americas Initiative envisions an open borderless trading system in the Western Hemisphere, one free of barriers and free of costly disincentives to fair competition. Trade has already helped build momentum for reform throughout Latin America and the Caribbean. Framework agreements on trade and investment have now been signed with nearly every country in the hemisphere, including CARICOM and each of the Central American countries. The Trade and Investment Councils established by these agreements have provided useful venues for discussion of trade and investment issues and have helped us work more closely together.

A number of countries, particularly in the Caribbean Basin, are concerned that ratification of NAFTA will signal the beginning of the end for their ability to compete for investment and export markets in the region. Ultimately they fear for their ability to maintain their standards of living. These are concerns we take seriously.

The NAFTA mirrors the new dynamic relationship between the United States, Mexico, Canada and our neighbors. It is not, however, an immediate panacea or transformation but a road map for a process of ordered economic cooperation and integration. Across-the-board duty-free treatment will not take effect overnight, but will be gradually implemented over a 15-year period. It will take that long to phase out tariffs and create an integrated regional trading bloc of 370 million people producing $6 trillion worth of goods and services each year. Nonetheless, NAFTA has already unleashed a surge of trading and investment activity with Mexico, already our third largest trading partner and our fastest growing export market.

Ratification of the North America Free Trade Agreement with Canada and Mexico will mark a major turning point in this process, moving the trade agenda from the theoretical to real world. At that point we will begin to fully reap the benefits of enhanced competition, less burdensome regulation and, importantly, improved employment opportunities.

Agreement on NAFTA was only made possible by a combination of sustained effort and the success of Mexico's impressive strides in creating an attractive and competitive environment for investors. Mexico's extensive trade liberalization measures and deregulation have revitalized industry and attracted new foreign participation. These reforms have taken determined efforts and courage by Mexico's leadership over an extended period of time.

For the countries of the Caribbean Basin, the NAFTA presents a formidable challenge. This challenge cannot be met by inaction or rigidity on the part of the region's economic and political leadership. It is a time for opportunity, courage, and action.

NAFTA can lead to a major acceleration of trade and investment for the entire hemisphere. The schedule of phased-in tariff elimination implies a timetable for action by other Latin American and Caribbean nations. This timetable requires advancement of national economic reform efforts and a more competitive position in international markets. It adds urgency to the process of integrating national economies while moving ahead to the broader benefits of regional economic integration and growth. The time for planning, consultation, and action within the region is now.

The Meaning of Partnership - A View to the Future

Responses to the challenges embodied in NAFTA will have to take place in a changed world; one in which the relationship between the United States and the region has evolved and matured.

Some observers have expressed a quiet but smug complacency with respect to NAFTA. While they complain of the potential increase in competition from Mexico, they resist any suggestions for needed adjustment or change. I can only conclude that they harbor a conviction that the United States will somehow make it all come out right, either by granting NAFTA trade benefits on a preferential basis or by earmarking additional resources for programs to offset any adverse impact.

Also encountered are officials who express a certain fatalism concerning NAFTA, depicting the region as powerless to do anything to mitigate potential diversion of investment and market shares to Mexico. These observers also plead for special and differentiated treatment, including calls for accession to NAFTA without fully meeting the obligations entailed in that accord.

The first view ignores the reality of the present situation. The second view assumes that national leaders are incapable of developing a political consensus to take needed reforms and to make their economies efficient and competitive.

There is long history of special support and assistance provided by the United States to the region, primarily in the form of unilateral concessions and financial support. While direct bilateral assistance ("foreign aid") has clearly diminished in the past decade, a wide range of other programs still provide extensive benefits to the region. These include such programs as the section 936 provisions for use of tax free Puerto Rican corporate earnings for reinvestment in qualified projects in CBI countries. Other programs, notably those giving preferential tariff treatment on goods assembled in the Caribbean and GSP have also extensively benefitted a number of countries in their efforts to broaden their economic base and improve their competitive access to the U.S. market.

These programs are unlikely to disappear. However, taken together they do not, in my judgment, point us in the direction which I believe our relationship is now moving -- toward a partnership of shared advantages, open trade and mutual responsibilities. There is little question that the relative value of many of these programs will erode as Mexico gains improved access to U.S. markets under NAFTA. Although negotiation of other Free Trade Agreements with the United States have yet to get underway, the trend works against these types of programs. While Caribbean and Central American countries currently benefit from preferential access to developed country markets through the Caribbean Basin Initiative and the Lome Convention, the degree of preference will narrow over time as we move to more open markets throughout the hemisphere.

The time for energetic leadership and decisive action is now. Leadership in the Caribbean Basin must move quickly to position national economies to benefit from a more open trade and investment climate. These leaders must be willing to deal with the need to advance structural reforms to assure strong, market-based economic systems. They must assure that their countries are able to compete for investment and are able to produce exports competitive on world markets. Countries that do not move ahead will be left behind. But I trust that the leaders in the region will not let this happen.

The Role of Integration

There is another policy perspective in the region; one shared by a number of dynamic and forward looking leaders who have seen the Enterprise for the Americas Initiative and the NAFTA as unprecedented opportunities. These leaders are at the forefront in the movement towards a new economic integration of the Western Hemisphere. They have looked upon the breaking down of barriers to trade and investment as a challenge. An opportunity to reach out and expand cooperation with other countries and to advance toward a broader vision of a hemisphere wide free trade zone. This leadership has produced tangible gains clearly reflected in a number of recent developments.

- o Chile, in addition to seeking a bilateral Free Trade Agreement with the United States, has completed separate trade agreements with Venezuela and Mexico.

- o Venezuela, in turn has entered into Free Trade pacts with both Mexico and Colombia.

- o In Central America, El Salvador, Guatemala, and Honduras have moved rapidly to integrate their markets and replace protective tariffs and import quota regimes with a simplified structure of low rates.

- o Despite the difficulties involved, both Brazil and Argentina remain committed to MERCOSUR, as does Paraguay and Uruguay.

In a number of cases these agreements go well beyond a simple pact to reduce bilateral trade barriers and tariffs. There also has been major progress in deregulation and advancing the development and integration of regional capital markets and reducing barriers to the free flow of investment -- both physical and financial. For example, the agreements between Colombia and Venezuela also call for the integration of the stock and bond markets of the two countries, an idea that is truly visionary in scope. Similar cooperation, coordination, and mutual access is being discussed by a number of other countries in South America and directly complement the more obvious efforts in trade. These efforts, which blend deregulation and a broadening in the ownership of national wealth will help spread the benefits of growth and adjustment to all level of society. This is absolutely crucial to ensuring a firm foundation for both democracy and the market.

The rapid growth of bilateral agreements and the ensuing web of interlocking trade and investment liberalization pacts are much more than simple reactions to the threat of competition from NAFTA. A broader and more positive agenda appears to be at play -- one in which countries can build on recent reforms to facilitate intra-regional trade, investment, and growth.

- o The bilateral Framework Agreements on Trade and Investment adopted by nearly every country in the hemisphere with the United States have provided an opportunity to build a consensus among countries in the region. This consensus supports the fundamental principles of free and fair trade and, in turn, has facilitated trade and investment throughout the hemisphere.

- o Just as sound macroeconomic policies and improved investment regimes have improved the competitive position and attractiveness of individual countries, it has also tended to highlight the need to reach beyond limited domestic markets.

- o Similarly, increased economic stability and more closely harmonized national economic policies have highlighted the advantages of economies of scale in production, and this is now developing in MERCOSUR and between Colombia and Venezuela.

- o The existence of more uniform rules and standards across countries has made these countries more attractive to the international financial community. The end result is more efficient and competitive capital markets.

The integration process in Latin America and the Caribbean has not been without difficulty. Reduced barriers to trade and investment and the move to free markets have increased cross-border sensitivity to divergent macroeconomic policies and strategies. It is difficult, for example to promote integration beyond a very basic level if two countries have widely divergent inflation rates and differing exchange rate and interest rate strategies.

However, integration is not working in every case. In some individual countries restrictive, inward-looking protectionist trade and investment regimes are not being dismantled with sufficient speed. Such policies hinder sub-regional integration.
In many respects the Andean Pact has dissolved into a series of bilateral agreements, largely due to a lack of political commitment and a history of widely divergent macro-economic policies. Elsewhere, the Central American Common Market remains a largely theoretical construct, with the exception of the progress being made in the northern tier countries in the trilateral accord. That agreement is leading the way to sub-regional integration in Central America.

<u>Sub-Regional Integration</u>

For the Caribbean and Central America, successful integration must rest upon a commitment to an outward-looking program, keyed to a goal of low external tariffs and elimination of non-tariff barriers coupled with reduced barriers to the free flow of capital in an environment conducive to investment -- both national and foreign.

The focus of Caribbean integration, however, has been largely inward-looking with a continued adherence to an import-substitution growth model. This policy pattern risks stagnation and isolation. Although the Organization of Eastern Caribbean States (OECS) is unique within Latin America and the Caribbean in its achievement of a monetary union, progress towards broader integration has been slow. Mobility of capital and labor are either tightly controlled or non-existent. Efforts geared to fostering a region-wide market served by regional firms have been halting. This sub-region is particularly challenged by broader movement to hemispheric integration due to the very small size of some national markets and their high standards of living, reflected in some of the highest per capita incomes in the hemisphere.

For the OECS, effective integration into the hemisphere will become increasingly urgent and critical to maintaining existing standards of living. Creative energy needs to be applied immediately by leadership in this region to position national economies on a more competitive basis. Failure to do so will see incomes erode and frustration grow.

Until recently, movement to integration in CARICOM has been hampered by a common external tariff (CET) of 40%. Although we welcome the agreement by CARICOM leaders to a phased reduction of the CET to 5-20 percent by January 1998, non-tariff barriers remain pervasive.

In Central America, I have already noted the progress being registered in the joint efforts of El Salvador, Guatemala, and Honduras. Although other countries in the region may be able to join this group with time, several remain far from willing to open their financial systems or economies to the rigors of competition.

The Role of External Support

The Enterprise for the Americas Initiative remains the defining framework for our economic and financial cooperation, support, and partnership with the countries of the Latin America and the Caribbean. The United States continues to stand ready to enter into bilateral official debt reduction agreements under the provisions of the EAI and, I am pleased to note, a number of additional countries are expected to become eligible for such benefits before year-end. On the trade front, we remain committed to the a hemisphere free trade zone, beginning with NAFTA.

The United States believes firmly that economic stabilization and regional integration needs to be actively supported by the multilateral institutions, specifically the International Monetary Fund, World Bank, and Inter-American Development Bank.

We have looked to the Inter-American Development Bank -- an institution controlled by the countries of Latin America and the Caribbean -- to play a major role in the Enterprise for the Americas Initiative. That institution is central to the region's economic recovery. It is playing a key role in the investment reform process through Investment Sector Loans and will soon be providing additional funds through the Multilateral Investment Fund. The MIF will have three separate facilities:

- a technical assistance facility to identify and implement policy changes needed to transform recipient economies;
- a human resources facility to train workers involved in the transition to more open investment regimes; and
- an enterprise development facility to invest in small business.

The MIF, which is now near its $1.5 billion funding target, has been structured so that non-member countries in the Caribbean can access its resources through the Caribbean Development Bank.

The United States believes the IDB's long-term role in the region needs to be enhanced. This belief was the basis for the U.S. proposal in September 1992 for the 8th Replenishment of the IDB, which called for a healthy increase in the resources available to the Bank. In that proposal we asked that fully 50% of the IDB's future lending be used to support economic opportunity, social sector development and governance objectives in all borrowing countries.

Conclusion

The economic progress of Latin America and the Caribbean continues to advance. It is attracting record levels of capital inflows, investor interest and renewed attention in voluntary capital markets. This progress has been underscored and reinforced by a new hemispheric partnership, a partnership characterized by new links joining and strengthening the economic and financial systems in the hemisphere.

At a meeting of eleven Latin American Finance Ministers with Treasury Secretary Brady last June, this new partnership was reconfirmed. In their joint statement, the Ministers emphasized the importance of our mutual interests in achieving stronger economies and stable democracies. They noted the importance of sustained economic recovery and adjustment and the need to broaden the benefits of growth to all levels of society. They also noted the crucial role played by open trade and investment regimes.

Nearly every country in the hemisphere is now engaged in a process of self-examination, restructuring and adjustment to meet the economic, social and political opportunities unfolding in the region. While the details and timing vary from country to country, the direction is clear.

In the case of the Caribbean Basin, national leaders face a rapidly changing trade and investment environment. The immediate need for reform and integration of markets implied by NAFTA demands sound economic management, increased reliance on market mechanisms, improved efficiency, a more hospitable climate for investment and greater regional cooperation and integration. Effective regional integration is particularly important if the countries in the region are to be competitive in the years ahead.

NAFTA is not the only challenge facing the Caribbean. One day Cuba will no longer be a dictatorship. I believe that it will one day be a democracy eager to rejoin the community of nations as a market economy. When this occurs -- and it most surely will -- the Caribbean will face new competition for private capital, development assistance, tourism, and export markets.

The potential for expanding markets and growth in the region is enough to sustain the region's economies in the face of NAFTA, a free Cuba, and a more open and competitive trading environment. But this growth cannot occur unless complacency and dependency is replaced by energetic leadership looking to the future.

Our mutual efforts to transform the hemisphere quickly and to secure greater benefits through cooperation and open markets is an unprecedented opportunity. We must have the courage to seize that opportunity now.

TREASURY NEWS
Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M. CONTACT: Office of Financing
December 1, 1992 202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 24,400 million, to be issued December 10, 1992. This offering will provide about $ 1,275 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $ 23,115 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, December 7, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91-day bills (to maturity date) for approximately $ 12,200 million, representing an additional amount of bills dated March 12, 1992 and to mature March 11, 1993 (CUSIP No. 912794 B3 7), currently outstanding in the amount of $ 25,193 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 12,200 million, to be dated December 10, 1992 and to mature June 10, 1993 (CUSIP No. 912794 D4 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 December 10, 1992. 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 $ 1,105 million as agents for foreign and international monetary authorities, and $ 5,151 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 5176-1 (for 13-week series) or Form PD 5176-2 (for 26-week series).

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Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. 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. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. Adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76 as applicable, 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.

4/17/92

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
December 1, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 49-DAY BILLS

Tenders for $16,008 million of 49-day bills to be issued December 3, 1992 and to mature January 21, 1993 were accepted today (CUSIP: 912794A38).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.27%	3.33%	99.555
High	3.32%	3.38%	99.548
Average	3.29%	3.35%	99.552

Tenders at the high discount rate were allotted 46%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	0	0
New York	33,704,000	15,254,500
Philadelphia	0	0
Cleveland	0	0
Richmond	0	0
Atlanta	25,000	25,000
Chicago	1,175,000	394,000
St. Louis	0	0
Minneapolis	0	0
Kansas City	0	0
Dallas	0	0
San Francisco	834,000	334,000
Treasury	0	0
TOTALS	$35,738,000	$16,007,500
Type		
Competitive	$35,738,000	$16,007,500
Noncompetitive	0	0
Subtotal, Public	$35,738,000	$16,007,500
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$35,738,000	$16,007,500

An additional $200,000 thousand of bills will be issued to foreign official institutions for new cash.

NB-2086

TREASURY NEWS

Department of the Treasury — Washington, D.C. — Telephone 202-622-2960

James H. Fall, III
Deputy Assistant Secretary (Developing Nations)
U.S. Department of the Treasury

Remarks for the Banking and Finance Session
Joint Conference of the USA-ROC and ROC-USA Economic Councils

Taipei, Taiwan
December 3, 1992

It is a pleasure to have the opportunity again to speak to the Banking and Finance Session. This group has provided an excellent forum to discuss financial developments in Taiwan and, importantly, to improve international understanding of the process of financial market liberalization in this growing economy.

This is my sixth trip to Asia this year. Over the past year, the Treasury has devoted considerable attention to an intensified dialogue on financial issues with an expanded group of high-growth Asian economies. We also have made this effort to better understand how developments in Taiwan and other Asian financial markets reflect and relate to global financial trends.

In my remarks today I would like to discuss certain elements which we believe define the process of financial liberalization in markets around the world, and our assessment of their relevance to Taiwan.

THE INTENSE GLOBAL COMPETITION FOR CAPITAL

The global competition for capital, as we all recognize, has intensified in the past several years and there is no basis to believe this competitive environment will become anything but more intense in the future. Clearly, the competition between regions and between countries within regions will grow. Policy changes to improve the ability of capital to flow more freely have increased. The challenge for all economies is to construct a policy environment which encourages private investment, domestic and foreign alike, and permits the free movement of capital.

Strong and confident leadership for further financial liberalization in all markets must be an integral element of this effort. We believe the importance of this process has not been lost on Taiwan's authorities as they look to the future and particularly to the implementation of the Six Year National Development Plan and in fulfilling the objective of becoming a regional financial center.

The judgements of market participants are more critical than ever to the success of any financial market. For all markets, these important judgments are made thousands of times every day by domestic and international investors. Their concerns are on several planes. Taken together, they encompass assessments on economic growth and stability, the "effectiveness" of political leadership, prospects for profits, and the comparative attractiveness of other markets. In their analysis, the scope and speed of past economic and financial reforms is a guide to future policies.

NB-2087

In the competition between markets, it is clear that countries that decisively liberalize their trade, investment, and financial regimes benefit greatly as investment flows increase and financial markets become more robust.

The impressive growth in Mexico's economy and its financial markets in recent years are a testament to the benefits of rapid reform. In Asia, some believe Hong Kong sets a standard for the region. Others point to the success of economic and financial sector reforms in countries such as Indonesia and Thailand that have led to significant inflows of foreign investment which in turn has fostered new technology, contributed to industrial expansion, and boosted exports. We are witnessing a dynamism in various markets -- a lively interplay between the markets themselves and policy officials to assure a responsive, healthy, competitive, stable, sound and confidence-building economic environment.

In markets where change is taking place at a more cautious pace, policymakers often will, with apparent pride, reel off a litany of changes that have taken place in the financial sector. They can outline plans for future liberalization dependent on various, and sometimes rigid, macroeconomic preconditions. But great care must be taken lest this overly cautious approach provide policymakers with a false sense of security, and induce complacency and perhaps a certain blindness to what is occurring elsewhere. A keen appreciation of the competition emerging in other markets is vital to policymakers in all economies. This is particularly true in the Asian region where there is significant financial market change and active competition between markets.

STRONG AND VIBRANT COMPETITION IS EMERGING IN ASIA

Our discussions in the region over the past year have highlighted the rapid changes underway in almost every market. The process of financial liberalization in Asia and is destined to foster both a diversification in opportunities for profitable investment and enhanced economic growth in the region as a whole. In virtually every market, liberalization is producing results.

It may be instructive to cite some recent developments:

- A number of equities markets have boomed over the last year. As of mid-November, Hong Kong's Hang Seng Index has increased 50 percent. In Bangkok, the SET is up 33 percent. Manila is up 20 percent. Malaysia's market has increased some 17 percent. Only in Japan has the market fallen further than it has in Taiwan. Other markets are emerging as well -- for instance, the interest in exchanges in Shenzen and Shanghai has been widely publicized.

- As an initial step in its quest to establish Bangkok as the regional financial center for Indochina, Thailand has just established an offshore banking center, the Bangkok International Banking Facility (BIBF).

- Australia's parliament has just passed legislation that will improve the ability of foreign banks to enter, increasing the attractiveness of Australia's financial markets.

- Indonesia's wide-ranging financial sector reform effort continues. Foreigners soon will be able to purchase shares in domestic banks and measures to liberalize foreign exchange trading have been implemented.

- Korea has recognized that further financial liberalization is necessary. It is moving to complete its "Blueprint for Comprehensive Financial Liberalization." To enhance the credibility of the "Blueprint", it has sought advice from the IMF and World Bank.

- Malaysia has established the Kuala Lumpur Options and Finance Futures Exchange (KLOFFE). Unlike Taiwan's proposed market, the KLOFFE will offer domestic as well as foreign financial futures.

TAIWAN SEEKS TO MEET NEW COMPETITION

Taiwan's aspiration of developing a regional financial center is well-known. To this end, it has undertaken a number of steps that will help it meet the emerging competition. By and large, financial liberalization is clearly underway, though with an excessive measure of caution.

A number of steps taken by the Ministry of Finance and the SEC over the past year are commendable, and indicate an appreciation of the benefits that further financial liberalization will bring to Taiwan. To cite some examples: the addition of new private banks has helped increase competition, improving service and lowering spreads between deposits and loans. Banks can engage in most transactions involving short-term money market instruments, which should help lower intermediation costs. Domestic firms are now allowed to issue Global Depository Receipts on international capital markets, which should aid the effort to privatize government enterprises. Gold trading is now permitted, and foreign futures trading will soon be allowed. The credit card monopoly has been abolished, which should help improve the quality and lower the cost of the credit card services enjoyed by the people on Taiwan.

Nonetheless, if Taiwan hopes to keep pace with developments elsewhere and attain the objective of becoming a financial center in the region, much remains to be done to bring the financial system in line with the practices and standards of sophisticated markets.

ARE THERE UNFULFILLED EXPECTATIONS?

In our judgement and from what we hear from a wide spectrum of market participants in and outside of Taiwan, there are still unfulfilled expectations. On a number of issues, Taiwan may be out of step with developments in other markets in the region and with international trends. A range of policy changes in the financial sector would help to facilitate capital inflows, and enhance Taiwan as a place where foreign investment and capital are indeed welcome.

The activities of foreign financial firms are still restricted in a variety of ways. This will invite investors to look carefully at other markets as alternatives. Expanded foreign participation is necessary to develop the financial sector, reduce discriminatory treatment, and provide foreign firms with the same rights that Taiwan's financial firms enjoy in the U.S. and other major markets. In the banking sector, foreign banks account for less than 3 percent of assets. In comparison, the foreign bank share, while still low, is roughly twice as high in Thailand, Korea, Indonesia and the Philippines. It is ten times as high in Malaysia, and twenty times as high in Singapore. In Taiwan's stock market, foreign institutional investment totals only $1.7 billion to date, out of a total market capitalization of more than $135 billion.

Controls on capital flows, ceilings on foreign exchange liabilities and restrictions on forward foreign exchange transactions all diminish the efficiency of Taiwan's capital markets and reduce the impact of market forces in exchange rate determination, constraining pressures for appreciation of the NT dollar. These restrictions are out of place in a fast-growing, modern, and stable economy like Taiwan. To the international financial community, the arguments set forward in defense of Taiwan's continued controls seem weak. Even the Philippines has moved boldly to abolish foreign exchange and capital controls, despite recent poor economic growth and a series of devastating and costly natural disasters.

In the context of Taiwan's large and continued external imbalances, the influential role of the central bank in the exchange market, in combination with the controls cited above, contributes to a situation that, in the judgement of the U.S. government, constitutes unfair manipulation of the exchange rate. Removal of the remaining capital controls and restrictions on foreign exchange transactions would help generate the appreciation of the NT dollar that will be necessary in the near term if Taiwan is to achieve an appreciable reduction in its bilateral trade imbalance with the United States.

These unfair practices are not in Taiwan's long-term interest. They induce and perpetuate macroeconomic distortions, and cast a shadow on Taiwan's reputation in the international financial community. Taiwan's own efforts to create a regional financial center are materially undermined by these distortions. Finally, these practices can fuel perceptions elsewhere that with regard to some of these practices, Taiwan is not fully in step with the rules and commitments that govern international tráde among members of organizations such as the GATT.

Taiwan increasingly stands to gain from a domestic and global policy framework that permits and encourages capital to move freely. Though Taiwan is a net exporter of capital, like other sophisticated economies its economic success depends on both capital inflows and outflows.

To this end, policy changes in Taiwan's financial sector could facilitate domestic and foreign capital mobilization, which would help to alleviate concern over the large decline in foreign investment, provide additional financing for the National Development Plan, and enhance prospects for developing a regional financial center.

The potential benefits to the domestic economy of financial liberalization are well known. However, a few benefits are worthy of special note. Increased foreign capital inflows could have a beneficial effect in the securities market. Despite Taiwan's attractive economic fundamentals, Taiwan securities market has been lackluster at best, and limitations on foreign investment have played a role. By comparison, equities markets have strengthened in Latin American countries that have recently moved to free their markets from capital and exchange controls and facilitate foreign investment. Obviously, in Latin America deregulation, privatization, and other measures to unburden economies from years of strangulation by the heavy hand of statism also have played a major role in the surge in foreign capital inflows and capital repatriation.

The role of financial sector liberalization in attracting foreign investment therefore cannot be underestimated. U.S. and other foreign companies routinely cite unhampered access to their traditional suppliers of financial services and modern financial infrastructure as important incentives to invest abroad.

Increased foreign investment could also help restrain the size of external imbalances by expanding trade flows in both directions.

TAIWAN'S INTERNATIONAL OBLIGATIONS AND RESPONSIBILITIES

In all markets, financial liberalization must proceed with international obligations and responsibilities in mind. For Taiwan, further liberalization will help highlight its economic and financial importance.

First, financial liberalization will be critical to Taiwan's efforts to integrate itself more fully into the global economic and trading system. Taiwan has a responsibility to implement policies that will permit the free flow of capital, just as it benefits from such policies elsewhere. As a large exporter of capital, Taiwan is increasingly the beneficiary of reduced capital, exchange, and investment controls in other markets.

Second, market forces must be allowed to play their full role in the external adjustment process, and particularly in the process of exchange rate determination.

Third, Taiwan must open its market further to foreign financial firms and provide them with the same opportunities to compete as domestic investors. In the United States, banks from Taiwan reap the benefits of an open financial market, where the right of establishment and national treatment are provided. Similar treatment should be extended to foreign financial firms in Taiwan.

Finally, for Taiwan, financial liberalization, or course, should proceed with GATT accession in mind. GATT obligations require that foreign exchange measures not frustrate the intent of other GATT obligations, that is, foreign exchange measures must not be used to restrain trade. Commitments by other GATT members to keep their trade regimes open can only go hand-in-hand with the full adoption by Taiwan of a market-based foreign exchange regime.

Moreover, the Uruguay Round services agreement calls for commitments to market access and national treatment of financial services. Liberalization of financial services is one of the most important aspects of the Uruguay Round for the United States. The Administration and Congress will undoubtedly be looking closely at the equality of commitments in this area when considering the overall Uruguay Round package. The situation in Taiwan is sure to come under scrutiny as Taiwan moves towards accession.

CONCLUSION

An era of intense change, competition, and integration among global capital markets is likely to be an era of opportunity for those players that can move decisively and adapt quickly. Rather than permit developments elsewhere to erode the progress that has been made thus far, Taiwan's policymakers should move boldly to advance the process of financial liberalization. Bold moves would send an important signal around the world that Taiwan intends to compete actively in the regional financial market and bolster its position in the global economy and in the international financial community.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
Friday, December 4, 1992

CONTACT: Rich Myers
(202) 622-2930

TAX INFORMATION EXCHANGE AGREEMENT BETWEEN UNITED STATES AND GUYANA ENTERS INTO FORCE

The Treasury Department announced today that the United States and Guyana have exchanged diplomatic notes that activate an agreement to exchange tax information.

With the Agreement in effect, Guyana qualifies as a jurisdiction in which Puerto Rican financial institutions may make certain investments of funds derived from U.S. tax code section 936 companies. Such funds may be used to finance investments in qualifying development projects in Guyana.

Another benefit of the Agreement is that Guyana will now be considered part of the "North American Area" for purposes of determining whether U.S. taxpayers may deduct expenses incurred in attending conventions, business meetings, and seminars. Therefore, convention expenses incurred by U.S. taxpayers for meetings in Guyana that are otherwise deductible as ordinary and necessary business expenses will be allowed without regard to the additional limitations applicable to foreign convention deductions.

Finally, Guyana will now qualify as a foreign country in which a foreign sales corporation may incorporate and maintain an office as provided in the foreign sales corporation provisions of the Tax Reform Act of 1984.

The Agreement satisfies the criteria set forth in the Caribbean Basin Economic Recovery Act of 1983. The Agreement was signed in Georgetown on and is effective on that date.

The United States also has Tax Information Exchange Agreements in effect with Barbados, Costa Rica, Dominica, the Dominican Republic, Grenada, Honduras, Jamaica, St. Lucia, Trinidad and Tobago, Marshall Islands, Mexico and Bermuda. All but the final three are Caribbean Basin Initiative countries.

A limited number of copies of the Agreement are available from the Treasury Public Affairs Office, Treasury Department, Room 2315, Washington, D.C. 20220, phone: 202/622-2960.

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NB-2088

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
December 4, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $ 14,750 million of 364-day Treasury bills to be dated December 17, 1992 and to mature December 16, 1993 (CUSIP No. 912794 E6 7). This issue will provide about $ 1,400 million of new cash for the Treasury, as the maturing 52-week bill is outstanding in the amount of $13,354 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Thursday, December 10, 1992 prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders.

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 17, 1992. In addition to the maturing 52-week bills, there are $ 22,464 million of maturing bills which were originally issued as 13-week and 26-week bills. The disposition of this latter amount will be announced next week. Federal Reserve Banks currently hold $ 6,581 million as agents for foreign and international monetary authorities, and $ 8,764 million for their own account. These amounts represent the combined holdings of such accounts for the three 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 $ 1,250 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 5176-3.

NB-2089

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. 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. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. Adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76 as applicable, 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 202-622-2960

FOR IMMEDIATE RELEASE
December 4, 1992

Contact: Keith Carroll
(202) 622-2930

TREASURY ANNOUNCES PENALTY AGAINST CALIBER BANK

The Department of the Treasury announced today that it has assessed a civil penalty of $65,000 against Caliber Bank, Phoenix, Arizona, for failing to file Currency Transaction Reports (CTRs) as required by the Bank Secrecy Act (BSA). The violations which occurred from November 1989 to February 1992 stemmed from a lack of internal controls to identify and report transactions subject to the BSA under the bank's previous management.

Assistant Secretary Peter K. Nunez, who announced the penalty, said, "The bank's new management conducted a complete internal investigation of its BSA compliance, promptly and independently brought this matter to the attention of the Department of the Treasury, and cooperated with Treasury in developing the scope of its deficiencies."

In determining the amount of the penalty, Treasury considered the voluntary disclosure of the violations by Caliber Bank and the corrective action and improvements to the BSA compliance program subsequently implemented by the bank's new management.

The penalty assessed by Treasury was based on the bank's failure to comply with the requirements of the BSA. The Treasury has no evidence that the bank or any of its employees or officers engaged in any criminal activities in connection with these reporting violations, nor was the Bank, or its officers or employees under criminal investigation for failures to file CTRs.

The Bank Secrecy Act requires banks and other financial institutions to keep certain records, file CTRs with Treasury on cash transactions in excess of $10,000 and file reports on the international transportation of currency, travelers checks and other monetary instruments in bearer form. The purpose of these records and reports is to assist the government's efforts in combatting money laundering as well as for use in civil, tax, regulatory and other criminal investigations.

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NB-2090

PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
December 4, 1992

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR NOVEMBER 1992

Treasury's Bureau of the Public Debt announced activity figures for the month of November 1992, of securities within the Separate Trading of Registered Interest and Principal of Securities program, (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$658,315,727
Held in Unstripped Form	$498,829,907
Held in Stripped Form	$159,485,820
Reconstituted in November	$8,780,140

The accompanying table gives a breakdown of STRIPS activity by individual loan description. The balances in this table are subject to audit and subsequent revision. These monthly figures are included in Table VI of the Monthly Statement of the Public Debt, entitled "Holdings of Treasury Securities in Stripped Form." These can also be obtained through a recorded message on (202) 874-4023.

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PA-112

TABLE VI—HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, NOVEMBER 30, 1992
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding			Reconstituted This Month[1]
		Total	Portion Held in Unstripped Form	Portion Held in Stripped Form	
11-5/8% Note C-1994	11/15/94	$6,658,554	$4,808,954	$1,849,600	$65,600
11-1/4% Note A-1995	2/15/95	6,933,861	5,512,101	1,421,760	93,600
11-1/4% Note B-1995	5/15/95	7,127,086	4,777,326	2,349,760	-0-
10-1/2% Note C-1995	8/15/95	7,955,901	5,984,301	1,971,600	215,600
9-1/2% Note D-1995	11/15/95	7,318,550	4,508,150	2,810,400	104,000
8-7/8% Note A-1996	2/15/96	8,415,159	7,842,359	572,800	142,400
7-3/8% Note C-1996	5/15/96	20,085,643	19,482,443	603,200	-0-
7-1/4% Note D-1996	11/15/96	20,258,810	18,689,210	1,569,600	48,000
8-1/2% Note A-1997	5/15/97	9,921,237	8,694,837	1,226,400	-0-
8-5/8% Note B-1997	8/15/97	9,362,836	8,498,836	864,000	-0-
8-7/8% Note C-1997	11/15/97	9,808,329	7,845,129	1,963,200	35,200
8-1/8% Note A-1998	2/15/98	9,159,068	8,857,628	301,440	49,600
9% Note B-1998	5/15/98	9,165,387	8,226,387	939,000	8,400
9-1/4% Note C-1998	8/15/98	11,342,646	10,863,446	479,200	-0-
8-7/8% Note D-1998	11/15/98	9,902,875	8,870,875	1,032,000	-0-
8-7/8% Note A-1999	2/15/99	9,719,623	9,278,023	441,600	-0-
9-1/8% Note B-1999	5/15/99	10,047,103	8,626,303	1,420,800	33,600
8% Note C-1999	8/15/99	10,163,644	9,913,119	250,525	-0-
7-7/8% Note D-1999	11/15/99	10,773,960	10,305,160	468,800	-0-
8-1/2% Note A-2000	2/15/00	10,673,033	10,615,833	57,200	-0-
8-7/8% Note B-2000	5/15/00	10,496,230	9,789,030	707,200	-0-
8-3/4% Note C-2000	8/15/00	11,080,646	10,920,806	159,840	16,000
8-1/2% Note D-2000	11/15/00	11,519,682	11,343,682	176,000	-0-
7-3/4% Note A-2001	2/15/01	11,312,802	11,246,402	66,400	-0-
8% Note B-2001	5/15/01	12,398,083	12,085,083	313,000	-0-
7-7/8% Note C-2001	8/15/01	12,339,185	12,182,385	156,800	264,000
7-1/2% Note D-2001	11/15/01	24,226,102	24,226,102	-0-	-0-
7-1/2% Note A-2002	5/15/02	11,714,397	11,461,037	253,360	-0-
6-3/8% Note B-2002	8/15/02	23,859,015	23,822,215	36,800	-0-
11-5/8% Bond 2004	11/15/04	8,301,806	5,445,806	2,856,000	2,248,000
12% Bond 2005	5/15/05	4,260,758	3,048,008	1,212,750	4,900
10-3/4% Bond 2005	8/15/05	9,269,713	8,781,713	488,000	226,400
9-3/8% Bond 2006	2/15/06	4,755,916	4,755,916	-0-	-0-
11-3/4% Bond 2009-14	11/15/14	6,005,584	2,402,384	3,603,200	968,800
11-1/4% Bond 2015	2/15/15	12,667,799	2,841,719	9,826,080	1,345,760
10-5/8% Bond 2015	8/15/15	7,149,916	1,836,636	5,313,280	340,800
9-7/8% Bond 2015	11/15/15	6,899,859	1,967,059	4,932,800	190,400
9-1/4% Bond 2016	2/15/16	7,266,854	6,023,654	1,243,200	465,600
7-1/4% Bond 2016	5/15/16	18,823,551	18,150,751	672,800	10,400
7-1/2% Bond 2016	11/15/16	18,864,448	17,492,368	1,372,080	96,800
8-3/4% Bond 2017	5/15/17	18,194,169	5,409,849	12,784,320	174,400
8-7/8% Bond 2017	8/15/17	14,016,858	7,808,858	6,208,000	113,600
9-1/8% Bond 2018	5/15/18	8,708,639	2,209,439	6,499,200	169,600
9% Bond 2018	11/15/18	9,032,870	1,406,270	7,626,600	42,800
8-7/8% Bond 2019	2/15/19	19,250,798	5,769,198	13,481,600	4,800
8-1/8% Bond 2019	8/15/19	20,213,832	12,913,672	7,300,160	369,920
8-1/2% Bond 2020	2/15/20	10,228,868	4,700,868	5,528,000	24,000
8-3/4% Bond 2020	5/15/20	10,158,883	2,145,443	8,013,440	61,280
8-3/4% Bond 2020	8/15/20	21,418,606	4,444,206	16,974,400	36,000
7-7/8% Bond 2021	2/15/21	11,113,373	10,070,173	1,043,200	48,000
8-1/8% Bond 2021	5/15/21	11,958,888	5,429,928	6,528,960	402,880
8-1/8% Bond 2021	8/15/21	12,163,482	10,412,442	1,751,040	75,200
8% Bond 2021	11/15/21	32,798,394	23,133,969	9,664,425	283,800
7-1/4% Bond 2022	8/15/22	10,352,790	10,292,790	60,000	-0-
7-5/8% Bond 2022	11/15/22	10,699,626	10,659,626	40,000	-0-
Total		658,315,727	498,829,907	159,485,820	8,780,140

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

Note: On the 4th workday of each month a recording of Table VI will be available after 1:00 pm. The telephone number is (202) 874-4023. The balances in this table are subject to audit and subsequent adjustments.

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE UPON DELIVERY
EXPECTED AT 10:30 A.M. EST

STATEMENT BY OLIN L. WETHINGTON
GOVERNOR FOR THE UNITED STATES OF AMERICA
IDB BOARD OF GOVERNORS
DECEMBER 7, 1992

I am extremely pleased to be here today to continue our discussion on increasing the resources of the IDB. In September, at the first Board of Governors meeting on the Eighth General Capital Increase, we carefully laid out, both programmatically and financially, our vision for the future of the IDB.

We have been encouraged by the positive response to our proposal. Our plan envisions a dramatic shift in the focus of the IDB to allow it a stronger role in advancing broad based social and economic advancement in the region. Such a shift would require the IDB to restructure its operations. We have therefore proposed the following:

- oo 50 percent of Bank lending to support economic opportunity, social sector development, and governance objectives in all borrowing countries,
- oo 30 percent of lending to support traditional infrastructure projects, with emphasis on the poorer countries of the Latin American and Caribbean region,
- oo 15 percent for policy based lending in support of further economic adjustment and debt agreements, particularly in the smaller countries, with social sector reforms and governance-oriented policy based lending to help all countries enact regulatory and administrative reforms,
- oo Consolidation of private sector activities of the Bank Group, merging the IIC and the IDB into a single management team to achieve greater operational and financial impact and efficiency,
- oo Managing the Bank on the basis of a sustainable lending level (SLL) approach and providing concessional resources for the poorest countries through an FSO II account to enable interest support on OC loans and technical assistance.

In our view, the basic challenge for the Bank continues to be mobilizing support for a market oriented economic approach with a strong private sector. This can help reduce poverty and ensure broad based social and economic participation.

I want to take this opportunity to note once again that exceptional efforts at economic reform undertaken by borrowing Governments over the past years are bearing fruit: the region as a whole is growing at rates not seen for a decade; flight capital is returning and state-owned enterprises are moving into the private sector, helping to promote fiscal equilibrium and free market growth.

Lending to Promote Economic Opportunity and Social Equity

Events in Latin America and other regions of the world continue to underscore the need to ensure that economic growth is broadly shared by all strata of society. A dynamic program of Bank support for economic opportunity, social sector development and governance objectives in all borrowing member countries can play a pivotal role in solidifying the advances of democracy and social equity.

We continue to believe that lending to reduce poverty must be part of a comprehensive Country Strategy. Projects should be financially sustainable, with a clear means of non-Bank financing when Bank support ends.

Most importantly, countries must demonstrate their own commitment to poverty reduction. It is essential that the Bank and member countries work closely with affected populations in the selection, design, execution and evaluation of programs. The Bank's field offices in borrowing countries can play an important role in working with local groups and affected populations on project identification, execution and evaluation. We also believe the Bank and borrowers could benefit by ensuring close cooperation with other donors, including the World Bank, in poverty efforts in the region.

Traditional Infrastructure Projects

While economies in the region are showing signs of renewed economic vitality, in many areas weakness in basic infrastructure continues to inhibit growth. Investment in infrastructure is needed, especially in the poorest countries, to relieve constraints to economic development which perpetuate conditions of poverty in large segments of the population.

Transportation, communication and energy should be priorities for the Bank. We believe the Bank can play a well defined role in these key sectors in poorer borrowing countries which do not have access to other sources of capital. We propose that approximately 30 percent of Bank lending be allocated for basic infrastructure activities during the eighth replenishment.

Non-Project Lending

Non-Project and sector lending was introduced as a part of the seventh replenishment to help modernize the economies of the region and reduce debt burdens. The Bank has made an important contribution in helping to restructure external debt and invigorate economies in the region through the Investment Sector Loan Program (ISLP) and sector loans. With much of the initial adjustment now underway, we believe the Bank can turn its attention increasingly to supporting productive investments in borrowing countries.

However, it is likely that some smaller economies may still need the support of Bank lending for adjustment and debt agreements. In addition, there should be a role for sector lending to help countries enact regulatory and administrative reforms, such as land titling measures, judicial reforms and social sector reforms. During the eighth replenishment, we suggest that up to 15 percent of Bank lending be allocated to non-project lending to carry forward this work.

Integration of Private Sector Support

In our previous discussion, we also outlined a plan for the integration of the Bank's private sector activities. Within the Bank Group, numerous programs exist which support private sector development. These include the IDB's regular OC programs, principally small projects and global credit loans, the activities of the Inter American Investment Corporation and soon, aspects of the Multilateral Investment Fund (MIF).

The private sector activities of IDB, IIC and the MIF should be executed through an integrated management team located in the IDB. The management structures of the Bank and IIC should be united into a single Department under the supervision of a single Manager. This would help ensure that the Bank's private sector activities have access to the appropriate mix of expertise and funds for a full range of activities from small and micro entrepreneurs up through privatizing state owned industries.

Private sector activities and plans also should be integrated into Country Programming Strategies and should operate on an interactive basis with other Bank activities.

In achieving the merger, we believe the separate legal and accounting status of the IDB and IIC balance sheets can and should be maintained. This would allow for separate cost and income centers and provisioning for higher risk activities where appropriate. IIC resources could continue to be used for loan transactions but our goal would be to increase the percentage of transactions that involve equity.

Future capital contributions for the IIC can be provided through contributions from the net income of the Bank itself in addition to the Bank acting as financial market intermediary for IIC operations. The Boards of the two institutions could continue to operate on a legally distinct basis. We believe, however, that the Boards should meet in joint session, as is the case with the IFC, IBRD and IDA boards. We recognize that our proposed changes might cause us to revisit the Charters of the institutions.

Multilateral Investment Fund

Let me add a note on the operations of the MIF in those countries which meet eligibility requirements. As we indicated at our previous session, the activities of the MIF, should support the investment activities of the Bank Group in a tightly integrated manner. MIF support for policy reforms, worker training, and the development of small scale entrepreneurs should complement rather than substitute for Bank activities. Grants and concessional loans provided by the MIF can be used selectively to augment IDB and IIC activities, but only in cases where added concessionality is clearly warranted. Because MIF funds are scarce, they should be used to address clearly identified constraints in the investment climate and where there is a high probability for successful resolution of the problem. It is appropriate that the MIF resources be allocated in conjunction with the programming and policy reform processes.

All expenditures, including any administrative expenses, should be approved directly by the Donors Committee. We consider this necessary to ensure that a consensus and political support are maintained for MIF activities and future funding.

Lending to Privatized SOEs

At our last meeting, I indicated, that if other Governors thought it might be useful, we would be willing to study the possibility of the Bank setting up a limited program to assist further in privatization efforts. As you know, some have been concerned that an absence of credit history or relationship with private lenders can be a disincentive to a state owned company's taking the final step to becoming private. To address this point, some had suggested that the Bank might follow state owned companies into the private sector for a limited time period, until they were able to establish relations with private lenders.

If others think such a program would have merit, we would advocate that it be tightly defined from the outset. To be eligible, companies should be able to operate independent of government control and subsidy and be structured to operate on a fully competitive basis in a modern business environment. We would envision that eligibility for any such borrowing should be limited to a two to three year period and that the program should constitute a very small percentage of the IDB's annual lending and total country exposure. If the Bank did support such a program, consideration might also be given to requiring the presence of private cofinancing to ensure that the Bank is advancing the goal of reliance on private capital.

Cofinancing With Private Capital

The Bank must continue to work with countries to attract private commercial lenders. Encouraging the adoption of policies which attract capital flows to the region, including foreign direct and portfolio investment, trade receipts and the return of flight capital must continue to be a central focus. The Bank can also continue to work to attract parallel and independent private financing to Bank operations in ways that do not share the Bank's preferred creditor status with commercial lenders.

The Need for Concessional Resources -- FSO II

The need for concessional resources is an important aspect of our discussions. Although many countries have made exceptional economic strides in recent years, a number of countries in the region are not yet in a position to accept financing on ordinary capital terms. Therefore, to support needed macroeconomic reforms and make the necessary investments in health, education, and infrastructure, we recognize that the Bank will have to continue providing lending on concessional terms to the poorest borrowers.

In its paper assessing the need for concessional resources, Management suggests a level of $3.1 billion in traditional FSO lending for 1994 through 1997. For the same period, Management also has suggested an IFF-assisted lending program for the upper income D category countries of $1.75 billion.

Our calculations indicate that the proposed level of FSO activity would require an eleven-fold increase in donor contributions to the FSO beyond the level provided for the seventh replenishment period. I think it is fair to say that this simply is not a realistic proposition, especially given existing global financial constraints. Therefore, we must continue to look for other new and creative ways to meet the financial needs of the poorer countries of the region.

We have proposed a program of leveraging funds collected through a number of sources. We propose to convert the existing FSO from a fund which provides direct loans into an FSO-II which provides interest support on OC loans. As you know, this parallels the current activities of the Bank's Intermediate Financing Facility (IFF). Some level of technical assistance could also be funded through the FSO-II on a grant or loan basis, as appropriate.

The FSO-II would be funded by donor contributions, OC net income transfers, FSO income transfers, FSO loan cancellations and FSO capital reflows as they become available. Our assumptions include a four year pay-in period for donor contributions and a maximum buy down of five percentage points. Every $1 dollar of FSO II support would buy down $4 dollars of OC lending at normal maturities. However, we would expect the level of FSO II subsidy to be scaled back as appropriate to reflect individual country circumstances.

Our preliminary analysis indicates that we can fund an FSO II lending program at least as large as the existing FSO lending program, with room for upward adjustment depending on the level of income transfers, donor contributions and redeployment of existing FSO assets. Clearly, this is an area for further analysis, and we await the Banks calculations on this issue.

We recognize that by itself, the FSO II would not be able to offer the length of maturities which the existing FSO offers. We also note that some have suggested that ordinary OC maturities might be extended for social lending. We agree that it would be desirable to explore ways of going beyond normal OC maturities for FSO II supported loans. However, we believe it would be wise to extend the maturities for loans on the basis of country need as opposed to the nature of a project.

In discussing the levels of concessionality associated with Bank loans, we continue to believe strongly that the management must exercise flexibility in tailoring loan conditions appropriate to the income level of borrowing countries. As many of you know, we have raised questions about IFF concessionality associated with recent loans.

<u>The Future Financial Structure of the Bank</u>

Over the past four years bank lending has expanded rapidly -- from a level of under $2 billion in 1988 to the $7 billion dollar range next year. This trend in lending growth cannot be sustained. In addressing the programs and organization of the IDB, we see a need for the eighth capital increase to equip the Bank with capital and financial policies which can serve the needs of its borrowers for a period of time well into the future. We also believe that improved procedures of Bank administration and rules for decision-making by the Board of Directors should remain in place.

Management's paper on the capital increase analyzes two different approaches to OC lending under the eighth replenishment: the traditional approach of front-loaded lending whereby, without a subsequent capital increase, lending would drop off sharply in 1998. Under this approach, according to Management estimates, lending would rise from a base of $7.1 billion in 1994 to at least $8 billion in 1997 and drop back to $3.5 billion in 1998.

The alternative is to manage the Bank on a the basis of a sustainable lending level (SLL) approach. Under an SLL approach, the Bank's annual lending levels must on average maintain a basic equilibrium with the sustainable lending level. In any given year, lending may exceed or fall below the sustainable lending level. We think it is time to recognize the IDB as a mature institution which should join the ranks of those operating on the basis of an SLL. We are pleased to note that Management's analysis indicates that an SLL approach is workable. In our view, this is the best way to ensure a predictable flow of development finance.

We note the various lending and capital requirement scenarios presented by Management. We suggest that capital subscriptions for the eighth increase should be paid in over five years. The Bank's analysis indicates that the timing of subscriptions has little impact on the level of the SLL. We also recognize the need to structure a capital increase of sufficient size to allow the Bank to act as a market intermediary for the IIC.

At an appropriate time, we will be prepared to discuss the capital requirements of the Bank and its lending program. Our conclusions obviously will be driven by a range of variables, including the lending program envisioned, administrative reforms and procedures to ensure sound means of project identification, execution and evaluation.

Allocation of Bank Lending

Clearly, our mutual long term objective is to advance the economic growth of borrowing countries and improve the living conditions of their populations to a point where the role of official lenders is marginal or no longer relevant. Such a development has always been this institutions goal. While full reliance on private capital is not yet feasible, we must acknowledge that more of the Banks resources should go to those countries which do not have access to alternative sources of capital. As I mentioned earlier, lending terms, including the use of MIF money, interest subsidies and FSO II lending must be tailored with great care to reflect individual country circumstances. Lending targets and country lending allocations are simply not an appropriate basis on which to plan the lending activities of a modern Bank Group.

In this regard, to ensure that the loan portfolio of the Bank is adequately protected, we must also move decisively to establish a system of evaluating country risk and exposure. This need not require an extensive system of analysis or staff resources since much of the necessary information is readily available. However, the institution of such a system could be extremely valuable in determining a prudent limit on IDB lending for each country.

<u>Procurement Guidelines</u>

With respect to procurement guidelines, an important element in our ability to sustain political and financial support for international institutions is an expectation of fair and competitive commercial opportunity. Based on recent experience, we think it necessary that the Bank redouble its efforts to ensure that open and transparent procurement rules apply for all Bank lending. We recognize that the Bank has made progress but believe further reforms are needed to ensure fair opportunity for goods, civil works and consultants for all Bank lending, regardless of the currency composition of the loans.

<u>Project Evaluation</u>

Accurate evaluation of the effectiveness of Bank projects is now more critical than ever. We support the efforts of the Board of Directors and Management to enhance its evaluation capacity by integrating two separate evaluation departments into one comprehensive unit. We must, build on these efforts to ensure that the Bank not only evaluates a project in execution but has mechanisms in place to judge its effectiveness after the project is completed.

<u>Environmental Programs of the Bank</u>

Protection of the environment is paramount to creating sustainable development. The Bank must lead in adapting development lending to ensure that economic growth can be sustained over the longer term. Effective policies are needed to protect forests, encourage energy efficiency and promote conservation. The Bank must also take the lead in the promotion of renewables and the development of integrated water resource policies.

<u>CONCLUSION</u>

In conclusion, I welcome this opportunity to review the direction that the Bank should take as we head into the next century. We have laid out an approach for restructuring the Bank's financial position and are confident that this can be successfully deployed. As we indicated in earlier statements, if the appropriate institutional and policy conditions are in place, the United States would be prepared explore a healthy increase in funding for the Bank and FSO II in which we would expect to maintain our current shares.

Before proceeding further on consideration of funding levels, we consider it necessary to turn attention to the programmatic aspects of future Bank lending. We suggest that the Bank analyze the successes, failures and lessons learned from its own experience and that of others as it embarks on new challenges. We believe Governors should consider a detailed lending strategy and the technical approach that the Bank would follow in areas such as poverty reduction and private sector development. We must also ensure that country lending programs are based on broader macroeconomic and structural programs. In addition, we suggest that Governors take a careful look at the administrative practices and expenses of the bank, with a view toward reducing overhead, increasing efficiency and ensuring that staffing practices provide the necessary skill mix to achieve our objectives.

Governors might concentrate on these programmatic issues in the next and following sessions. After development priorities have been determined and Governors are confident that appropriate administrative and management procedures are in place to ensure efficient use of funds, as a final step, discussion could return to the question of funding levels. The ultimate conclusions on the size of an OC capital increase and funding for FSO II should be based on the conclusions regarding these technical and programmatic issues.

We look forward a full discussion of these issues. Thank you.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
December 7, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $12,216 million of 13-week bills to be issued December 10, 1992 and to mature March 11, 1993 were accepted today (CUSIP: 912794B37).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.26%	3.33%	99.176
High	3.29%	3.37%	99.168
Average	3.29%	3.37%	99.168

$560,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 61%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	30,780	30,780
New York	32,832,935	10,372,450
Philadelphia	8,295	8,295
Cleveland	45,980	45,980
Richmond	42,200	41,200
Atlanta	78,210	42,680
Chicago	1,818,600	350,900
St. Louis	12,295	12,295
Minneapolis	9,640	9,640
Kansas City	31,485	31,485
Dallas	19,260	19,260
San Francisco	778,015	377,735
Treasury	872,935	872,935
TOTALS	$36,580,630	$12,215,635
Type		
Competitive	$32,286,085	$7,921,090
Noncompetitive	1,494,990	1,494,990
Subtotal, Public	$33,781,075	$9,416,080
Federal Reserve	2,465,655	2,465,655
Foreign Official Institutions	333,900	333,900
TOTALS	$36,580,630	$12,215,635

NB-2092

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
December 7, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $12,277 million of 26-week bills to be issued December 10, 1992 and to mature June 10, 1993 were accepted today (CUSIP: 912794D43).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.36%	3.47%	98.301
High	3.38%	3.49%	98.291
Average	3.37%	3.48%	98.296

Tenders at the high discount rate were allotted 13%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	22,450	22,450
New York	43,941,795	11,434,390
Philadelphia	9,190	9,190
Cleveland	27,350	27,350
Richmond	23,635	23,635
Atlanta	64,775	17,785
Chicago	1,719,965	51,595
St. Louis	15,805	15,705
Minneapolis	12,565	12,565
Kansas City	25,930	25,930
Dallas	13,120	13,120
San Francisco	820,035	82,295
Treasury	541,040	541,040
TOTALS	$47,237,655	$12,277,050

Type		
Competitive	$43,108,015	$8,147,410
Noncompetitive	917,840	917,840
Subtotal, Public	$44,025,855	$9,065,250
Federal Reserve	2,700,000	2,700,000
Foreign Official Institutions	511,800	511,800
TOTALS	$47,237,655	$12,277,050

NB-2093

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
December 7, 1992

Contact: Claire Buchan
(202) 622-2910

SECRETARY BRADY APPLAUDS ARGENTINE DEBT ACCORD

Treasury Secretary Nicholas F. Brady today applauded the signing of the comprehensive debt and debt-service reduction agreement reached between Argentina and its commercial bank creditors.

"The agreement signed yesterday in Buenos Aires between Argentina and its commercial bank creditors is a major achievement in President Menem's revitalization of that nation's economy and underscores the success of President Bush's program to reduce third world debt," Brady said.

Argentina's debt accord addresses nearly $29 billion in commercial bank debt and overdue payments. It offers banks choices for debt and debt-service reduction, as envisioned under the strengthened international debt strategy proposed by Secretary Brady in March 1989. The Government of Argentina estimates effective reduction in Argentina's debt of $10 billion. Financial enhancements to support the agreement will be provided by the International Monetary Fund, the World Bank, the Inter-American Development Bank, Argentina itself, and Japan.

Argentina has made impressive progress in economic management under President Menem and Minister Cavallo. This progress has generated renewed capital inflows, including a return of funds held abroad by Argentina's own citizens.

Yesterday's signing of the bank agreement is further evidence of the strength of the international debt strategy's case-by-case approach in dealing with the unique problems of individual countries and their commercial bank creditors.

NB - 2094

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
December 8, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $24,400 million, to be issued December 17, 1992. This offering will result in a paydown for the Treasury of about $13,100 million, as the maturing bills are outstanding in the amount of $37,506 million (including the 41-day cash management bills issued November 6, 1992, in the amount of $15,042 million). Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, December 14, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91-day bills (to maturity date) for approximately $12,200 million, representing an additional amount of bills dated September 17, 1992, and to mature March 18, 1993 (CUSIP No. 912794 B5 2), currently outstanding in the amount of $11,086 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $12,200 million, to be dated December 17, 1992, and to mature June 17, 1993, (CUSIP No. 912794 D5 0).

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 17, 1992. In addition to the maturing 13-week, 26-week, and 41-day bills, there are $13,354 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 $6,962 million of the original 13-week and 26-week issues. Federal Reserve Banks currently hold $8,212 million as agents for foreign and international monetary authorities, and $8,778 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 5176-1 (for 13-week series) or Form PD 5176-2 (for 26-week series).

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. 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. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. Adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76 as applicable, 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.

4/17/92

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
Wednesday, December 9, 1992

CONTACT: RICH MYERS
(202) 622-2930

TREASURY RELEASES SMALL BUSINESS TAX INITIATIVES

The Treasury Department today released details of a small business tax reform initiative that would significantly simplify tax compliance for America's small businesses.

Treasury Secretary Nicholas F. Brady presented the initiatives to representatives of major small business advocacy groups during a meeting today.

President Bush first outlined the initiatives on September 23. Secretary Brady has long promoted the importance of small business in job creation and long-term economic growth, and the Treasury Department has been committed to developing the new initiatives, which include statutory language, related explanations and revenue estimates.

The initiatives include six basic provisions:

- Expensing of $2,500 of start-up expenditures.
- Expand expensing of equipment costs to $25,000.
- Alternative minimum tax relief. The proposal would virtually exempt small businesses from the application of the AMT. Most importantly, AMT depreciation adjustment and the ACE adjustment are eliminated.
- Relief from "capitalization" rules. These complex rules apply equally to small businesses and Fortune 500 companies. The proposal frees small businesses from the requirement to capitalize into inventory indirect and direct costs of production and eliminates the requirement to capitalize certain other indirect costs.
- Inflation adjusted inventory FIFO accounting. This proposal provides small businesses with inflation protection already available to large businesses.
- Relief from long-term contract accounting rules.

Further details of the initiatives are attached.

NB-2096

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THE SECRETARY OF THE TREASURY
WASHINGTON

December 9, 1992

Dear Small Business Advocate:

Because of our mutual interest in issues important to small businesses, I wanted to share with you details of a small business tax reform initiative we have recently completed.

I remain convinced that compliance costs and other regulatory burdens undermine the efficiency and growth of America's small businesses. I believe strongly that a comprehensive small business tax reform plan would foster job creation and long-term economic growth, and represent tremendous progress in simplifying and revitalizing the nation's tax system.

The initiatives were first outlined by President Bush on September 23. We have remained committed to developing the initiatives, including the statutory language, related explanations and revenue estimates.

The initiatives focus on radically simplifying tax compliance for small businesses. Taken together, the initiatives eliminate over 160 million hours of annual recordkeeping and return preparation time by small businesses across the country. As a result, the initiatives would meaningfully reduce capital costs and increase economic return for small businesses.

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- Expensing of $2,500 of start-up expenditures.

- Expand expensing of equipment costs from $10,000 to $25,000.

- Alternative minimum tax relief. The proposal would virtually exempt small businesses from the application of the AMT. Most importantly, AMT depreciation adjustment and the ACE adjustment are eliminated.

- Inflation adjusted inventory FIFO accounting. This proposal provides small businesses with inflation protection already available to large businesses.

- Relief from "capitalization" rules.

- Relief from complex long-term contract accounting rules.

Despite the modest dollar thresholds for application of the initiatives (generally either $1 million or $10 million), their scope is staggering. Of the nearly 15 million sole proprietorships, 99.6 percent have annual total receipts of $1 million or less. In fact, over 96 percent of all business enterprises (including corporations and partnerships) have annual total receipts of $1 million or less.

In addition to the initiatives presented, a number of other proposals complete the Bush administration's comprehensive package of small business tax reforms. They include extension of the self-employed insurance deduction, the tax credit for family leave, pension simplification for small businesses, a reduction of the tax rate for small corporations, and a broad-based capital gains exclusion for investments in small businesses. In addition, the Treasury Department recently issued new regulations for greatly simplified federal payroll tax deposits.

I hope you find the small business tax reform initiatives helpful. Best wishes in your continued work to promote and strengthen America's small businesses.

Sincerely,

Nicholas F. Brady

Nicholas F. Brady

Enclosures

Scope of Simplification
Initiatives for Small Business

Proposal	Number of Small Businesses Benefitted
Section 179 increase	4.8 million
Start-up costs expensing	950 thousand
AMT exemption	160 thousand
Inflation-adjusted FIFO	5 million
Section 263A and 460 capitalization exemptions	2 million

Reducing Capital Costs and Complexity for Small Business

Increase Section 179 amount to $25,000.

- Present law permits small businesses to expense up to $10,000 of machinery and equipment purchases per year.
- Proposal would allow expensing up to $25,000 per year.
- Available for all small businesses not placing more than $200,000 of equipment in service in a year. Phase-out of benefit by $1 for every $1 of additions above $200,000. Total phase-out if small business places $225,000 of additions in service in a year.

Permit expensing of $2,500 of start-up expenditures.

AMT relief for small businesses.

- Provides relief from business-related AMT preferences and adjustments for qualifying small corporations and unincorporated small businesses.
- Several adjustments are eliminated, including the depreciation, depletion, and "ACE" adjustments.
- An activity is a small business activity if the business (considering related party aggregation rules) has never experienced a 3-year period in which average annual gross receipts exceeded $1,000,000.

Inflation-adjusted FIFO inventories computation for small businesses.

- The proposal would permit taxpayers to elect the FIFO (or first-in first-out) method, and would increase each year's cost of goods sold deductions by an inflation adjustment ("inflation adjusted FIFO").
- Large businesses currently have protection from inventory inflation through use of the LIFO method (not easily applied by small business).
- Proposal would apply to taxpayers with not more than $10,000,000 of average gross receipts in three preceding years.

Repeal "uniform capitalization rules" for small businesses.

- Present law imposes uniform set of cost capitalization rules across substantially all business production activities.

  -- Rules require small businesses engaged in production activities to examine all materials, labor, and overhead costs incurred and to allocate (and capitalize) a portion of these costs to ending inventories each year.

- Proposal would exempt all small businesses with not more than $10,000,000 of average gross receipts in prior three years from requirement to capitalize overhead costs under the uniform capitalization rules. These businesses would be able to capitalize overhead costs under more liberal capitalization rules generally mirroring GAAP requirements.

Provide additional cost capitalization simplification for small businesses.

- Present law subjects businesses with not more than $1,000,000 of average gross receipts in three preceding years to the same "uniform capitalization rules" that apply to Fortune 500.

- Proposal would exempt these very small ("mom and pop" type) producers (including long-term contractors) from any requirement to capitalize indirect overhead costs.

Repeal "percentage of completion method" and "uniform capitalization rules" for small long-term contractors.

- Prior law (pre-1986 Act) generally allowed use of completed contract method.

  -- Under this method, all revenues and costs associated with long-term contract are deferred and recognized only upon completion of contract.

  -- All costs not allocable to long-term contract are currently deductible, rather than capitalized to contract and deferred.

- Present law generally requires long-term contractors to use percentage of completion method (PCM).

  -- Under PCM, all costs (i.e., capitalized costs) associated with a contract are deductible in year in which incurred, and a percentage of estimated contract revenues are included in income as well.

- Present law requires application of uniform capitalization rules (described above) to small long-term contractors.

- Proposal would exempt all contracts of small long-term contractors (with not more than $10,000,000 of average gross receipts in prior three years) from overhead cost capitalization under the uniform capitalization rules and from PCM requirements.

INCREASE CURRENT DEDUCTION FOR CERTAIN INVESTMENTS FROM $10,000 TO $25,000

Current Law

The cost of business or income producing property that is used for more than one taxable year generally must be deducted over the useful life or recovery period for the property in determining taxable income. Under section 179, however, a taxpayer may elect to treat as an expense and deduct, in the year that eligible property is placed in service, a limited amount of the cost of the property. Eligible property generally includes tangible personal property and certain other property, and generally excludes buildings and structural components.

The total cost that may be deducted currently under section 179 is subject to two limitations, the investment limit and the taxable income limit. These limitations apply both to partnerships and each partner and to S corporations and each shareholder. Any cost not deducted under section 179 may be depreciated. The amount deducted under Section 179 is subtracted from the basis of the qualifying property. This adjusted basis is used to determine depreciation deductions.

Reasons for Change

An increase in the section 179 deduction is necessary to encourage purchases of new machinery and equipment, and thereby promote capital investment, modernization and a more rapid economic recovery. The current limit on the section 179 deduction creates complexity by requiring business with qualifying investments to depreciate the cost of the investment in excess of the investment limit.

Proposal

The maximum allowable deduction under section 179 would be increased from $10,000 to $25,000. For each dollar of cost of section 179 property in excess of $200,000 in a taxable year, the $25,000 maximum would be reduced by one dollar. Thus, no section 179 expense deduction is allowed when the cost of the eligible property exceeds $225,000.

Effects of Proposal

The proposal would reduce the cost of capital and increase cash flow, thereby providing an incentive to increase investment. It also would simplify tax reporting for certain small businesses that invest no more than $25,000 in eligible property for the taxable year. The limit on eligible investment ensures that the proposal primarily benefits smaller businesses.

Revenue Estimate

	Fiscal Years					
	1993	1994	1995	1996	1997	1993-97
	(Millions of Dollars)					
Increase section 179 deduction	-1,600	-2,600	-1,800	-1,400	-1,000	-8,400

ALLOW IMMEDIATE EXPENSING OF NEW BUSINESS START-UP COSTS

Current Law

Under current law allowable business start-up expenditures must be capitalized over at least 60 months (five years). Start-up expenditures include amounts paid or incurred with the acquisition or creation of a trade or business which precede the day the business becomes active. Excluded from the capitalization rule under current law are interest, taxes, and research and experimentation expenditures.

Reasons for Change

The requirement to capitalize business start-up costs creates a disincentive to invest or engage in small business activities. Direct expensing of a portion of the costs connected with a new business will lower the cost of capital associated with a start-up business and encourage job creation.

Proposal

Effective for expenditures made after December 31, 1992, the immediate write-off of up to $2,500 would be permitted to a qualified taxpayer for front-end costs of organizing a new small business that would otherwise be subject to capitalization. A qualified taxpayer would expect or know that the new small business would have gross receipts of less than $500,000 in its first full year of operation.

Effects of Proposal

The proposal would encourage start-up activities by lowering the after tax cost of starting up a small business.

Revenue Estimate

	Fiscal Years					
	1993	1994	1995	1996	1997	1993-97
	(Millions of Dollars)					
Allow $2,500 expensing for new business start-up costs	-94	-138	-106	-72	-37	-448

EXEMPT SMALL BUSINESSES FROM ALTERNATIVE MINIMUM TAX

Current Law

Under current law, a corporation is subject to an alternative minimum tax (AMT) which is payable to the extent that the corporation's tentative minimum tax exceeds its regular income tax liability. The tentative minimum tax generally equals 20 percent of the corporation's alternative minimum taxable income. Alternative minimum taxable income is the corporation's taxable income increased by its tax preferences and modified for certain adjustments that redetermine the tax treatment of certain items to eliminate the deferral of income resulting from the regular tax treatment of those items. A corporation is entitled to reduce its regular income tax liability by a credit (the minimum tax credit) which is generally based on AMT paid in preceding years.

Unincorporated businesses and S corporations are not subject to AMT, but the individual alternative minimum tax may apply to their owners on preferences and adjustments deriving from the business. The tax rate on an individual's alternative minimum taxable income is 24 percent.

Reasons for Change

There is concern that the complexity of the corporate and individual AMTs impose a significant burden on small businesses. Small businesses are less likely to have the sophisticated accounting systems and expertise that are important in complying with the AMT.

In addition, because of their size and limited access to equity and debt financing, small businesses are likely to face higher costs of capital than larger firms. The individual and corporate minimum taxes, which raise the cost of capital, may discourage new investments by small businesses.

Proposal

For any taxable year during which a taxpayer is a "qualified small business taxpayer," certain business-related adjustments and preferences with respect to any "qualified small business activity" would not be taken into account for any purposes in computing alternative minimum taxable income. A qualified small business taxpayer is any taxpayer engaged in a qualified small business activity. A qualified small business activity with respect to a taxpayer includes any trade or business activity conducted by an individual, sole proprietorship, partnership, or corporation for which a $1,000,000 gross receipts test is satisfied in all prior taxable years beginning after December 31, 1992.

A person or entity meets the $1,000,000 gross receipts test for a prior taxable year if the average annual gross receipts of such person or entity for the 3 taxable-year period ending with such prior taxable year does not exceed $1,000,000. Aggregation and related party rules similar to those in section 448(c) would apply in making the average annual gross receipts determination.

Business-related adjustments and preferences that would not taken into account with respect to a qualified small business activity include: (1) the adjustments for depreciation, mining exploration and development costs, long-term contracts, pollution control facilities, installment sales on certain property, circulation and R&E expenditures, and adjusted current earnings (ACE); and (2) the preferences for depletion, intangible drilling costs, bad debts, and accelerated depreciation. Other preferences and adjustments, including those viewed as personal or investment-related, would still be taken into account under the proposal.

Effects of Proposal

The proposal would simplify tax accounting for both incorporated and unincorporated small businesses and their owners. It would also reduce the cost of capital for small business.

Revenue Estimate

	Fiscal Years					
	1993	1994	1995	1996	1997	1993-97
	(Millions of Dollars)					
Exempt small businesses from alternative minimum tax	-202	-303	-316	-364	-433	-1,617

ALLOW SMALL BUSINESS TO ELECT INFLATION-ADJUSTED FIFO INVENTORY RULES

Current Law

The two inventory cost flow assumptions generally used by taxpayers in determining their cost of goods sold and taxable income are the FIFO and the LIFO methods. Under the FIFO (or "first-in first-out") method, it is assumed that inventories are disposed of in the order in which they are produced or acquired by the taxpayer.

Taxpayers are also permitted to use the LIFO (or "last-in first-out") method, under which it is assumed that the last goods produced or acquired by the taxpayer are the first goods sold by the taxpayer in any taxable year. Thus, LIFO reflects income from inventory sales more accurately during periods of inflation than FIFO, thus resulting in a better matching of current costs of goods sold with revenues. The LIFO method does not, however, permanently eliminate the effects of inflation, but only defers those effects generally until such time as the taxpayer reduces or liquidates its inventories.

Reasons for Change

In periods of inflation, the FIFO method may result in charges to cost of goods sold that are not reflective of the actual economic costs that the taxpayer had to incur to acquire or produce the goods in the current year. Because of the complexity of LIFO accounting, and because section 472 of the Code requires that a taxpayer using LIFO for tax purposes must also use LIFO for financial accounting purposes, many smaller taxpayers hesitate to use the LIFO method. Additionally, the LIFO method has been the source of much conflict between taxpayers and the IRS, given the wide divergence of specific LIFO inventory practices.

Proposal

The proposal would permit taxpayers with gross receipts under $10 million to elect to use an inflation-adjusted FIFO method. Taxpayers making this election would continue to use the FIFO method as permitted under present law, but inventories would be indexed (and cost of goods sold would be increased) using inflation adjustment factors based on the Consumer Price Index.

Effects of Proposal

The adoption of this proposal would provide a much-needed alternative to the LIFO method for small taxpayers who are unable to understand the LIFO computations, unwilling to use the LIFO method for GAAP purposes, or unwilling to subject themselves to potential disputes with the IRS over the use of the LIFO method.

The inflation-adjusted FIFO method would result in a permanent increase in the cost of goods sold (and accordingly a permanent decrease in taxable income) for small businesses with inventories. The resulting taxable income measure would more closely reflect real economic income.

Revenue Estimate

	Fiscal Years					
	1993	1994	1995	1996	1997	1993-97
	(Millions of Dollars)					
Allow small business to elect inflation-adjusted FIFO inventory rules	-267	-543	-563	-582	-603	-2,558

EXEMPT SMALL BUSINESS FROM THE UNIFORM CAPITALIZATION RULES

Current Law

Producers of property generally may not deduct currently the costs incurred in producing property. In order that income be measured accurately, such costs must be capitalized and recovered through an offset to sales receipts (if the property is produced for sale) or through depreciation deductions (if the property is produced for the taxpayer's own use in a business or investment activity).

Section 263A of the Code generally provides a uniform set of rules that governs the capitalization of costs associated with either the purchase and resale of inventories, or the production of real or tangible personal property (whether produced for sale or for use in the taxpayer's business). Section 263A requires the capitalization of both direct and indirect costs associated with these resale and production activities.

Capitalizable direct costs include direct material costs and direct labor costs. Indirect costs that must be capitalized generally include amounts incurred for such items as maintenance and repair, utilities, equipment rentals, tools and equipment not capitalized, supervisory labor, pension and other employee benefit expenses relating to both current and past service, indirect materials, quality control, non-income taxes, depreciation (to the extent allowed under the Code), depletion (whether or not it is in excess of cost), rework labor, scrap and spoilage, bidding activity, engineering and design activity, production-period interest, and other general and administrative activities to the extent such costs are properly allocable to particular activities. The regulations provide guidance regarding acceptable methods by which specified capitalizable costs may be allocated to specific production or resale activities.

Costs that are not required to be capitalized with respect to production or resale activities include marketing, selling, advertising, and distribution costs, bidding expenses on contracts not awarded to the taxpayer, research and experimental expenses, losses deductible under section 165 of the Code, depreciation on temporarily idle equipment, income taxes, strike costs, repair expenses that do not relate to the manufacture or production of property, and general expenses that are not incurred by reason of a particular production activity (e.g., those costs associated with general business planning, general financial accounting, internal audit, tax return preparation, shareholder and public relations, and general economic analysis and forecasting).

Section 263A does not apply to inventories acquired for resale by small businesses with gross receipts of $10 million or less (computed as a three year moving average).

Reasons for Change

Generally accepted accounting principles (GAAP) used for financial reporting purposes require less extensive capitalization of indirect costs than do the section 263A rules. Because of the disparity between GAAP and tax treatment, several costly and burdensome cost allocations are required solely for the purpose of computing tax liability. This accounting burden could be eliminated for those least able to deal with the compliance burden by expanding the current section 263A exemption for small business resellers to all small business producers.

Proposal

The proposal generally would provide that the uniform capitalization rules do not apply to any taxpayer with gross receipts of $10 million or less. In addition, smaller taxpayers with gross receipts of $1 million or less generally would be required to capitalize only direct costs attributable to production or resale activities.

Effects of Proposal

An exemption from the section 263A uniform capitalization rules for small producers would allow these taxpayers to capitalize costs under the more liberal set of capitalization rules in existence prior to the enactment in 1986 of section 263A, and would reduce the disparity in the tax treatment between small business resellers and other small businesses. Small producers generally would be subject to the full absorption method regulations contained in section 1.471-11. Those regulations do not require the allocation and capitalization of several cost categories for which cost capitalization is required under section 263A.

Revenue Estimate

	Fiscal Years					
	1993	1994	1995	1996	1997	1993-97
	(Millions of Dollars)					
Exempt small business from the uniform capitalization rules	-18	-46	-51	-54	-55	-224

EXEMPT SMALL BUSINESS FROM THE LONG-TERM CONTRACT RULES

Current Law

Section 460 generally governs the tax accounting treatment of long-term contracts. Under current law, taxable income from such contracts is generally determined under the percentage of completion method (PCM) of accounting. Under this method, the contractor is entitled to deduct all costs allocated to the contract in the year in which they are incurred, but must recognize income based on an estimate of the revenues to be realized on the contract attributable to the year's activities. This estimate is generally determined by multiplying the expected contract price by the ratio of actual costs incurred during the year to the total expected costs of the contract.

Taxpayers must generally perform a recomputation at the end of the contract, based on actual contract price and actual contract cost data, of the income that would have been recognized in each taxable year of the contract if actual rather than estimated data were used in such years. This recomputation, known as the look-back method, results in either an interest charge to the taxpayer or an interest payment to the taxpayer based on the underpayment or overpayment of taxes in prior years.

All costs which directly benefit or are incurred by reason of the long-term contract activities of the taxpayer are allocated to those contracts. These costs are identified in regulation section 1.451-3 and are similar to those costs required to be capitalized under the uniform capitalization rules of section 263A of the Code.

Statutory exemptions from section 460 exist for certain construction contracts. Some of these provisions allow the exempted taxpayer to use the completed contract method (CCM) of accounting, while others require a combination of CCM and PCM. For example, a construction contract which is estimated to be completed within a two-year period is entirely exempt from the PCM requirement, provided that the contractor has average annual gross receipts of $10 million or less (as computed over the prior three year period).

Under CCM, all revenues and costs allocated to the long-term contract are deferred, and are recognized only upon completion of the contract. The costs allocated to a long-term contract are determined under rules that require both direct and indirect costs of the long-term contract to be capitalized to the contract and deferred.

Reasons for Change

Accounting for long-term contracts under the section 460 percentage of completion (PCM) method results in a number of complexities for small contractors.

Proposal

The proposal would expand the current exemption from section 460 requirements to any long-term contract being performed by a contractor with average gross receipts under $10 million. In addition, contractors with gross receipts under $1 million would only be required to allocate and capitalize direct contract costs under the completed contract method (or under an inventory method of accounting).

Effects of Proposal

An exemption from the section 460 rules would allow small contractors to use the completed contract method (CCM) for computing taxable income and generally would not require the allocation of costs to contracts under the uniform capitalization rules.

The proposal would lessen the accounting burden on small business contractors. Eliminating this burden for small business could benefit emerging high-technology companies doing long-term contract work and encourage the production of new technologies by such small businesses.

Revenue Estimate

	Fiscal Years					
	1993	1994	1995	1996	1997	1993-97
	(Millions of Dollars)					
Exempt small business from the long-term contract rules	-8	-12	-11	-9	-4	-44

TREASURY NEWS

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REMARKS BY
THE HONORABLE NICHOLAS F. BRADY
SECRETARY OF THE TREASURY
BEFORE THE
COLUMBIA UNIVERSITY SCHOOL OF BUSINESS
DECEMBER 10, 1992

Thank you, Glenn [Hubbard], and thank you all for coming today.

I would like to share some thoughts with you about transition -- but not the transition that is capturing headlines nationally. The political transition that we read about every day is very important. But we should not lose sight of the profound and permanent transition to a global economy that we are undergoing. It is totally reconfiguring our world.

To be sure, these twin transitions are not entirely distinct. The political transition will almost certainly have significant implications for the economy. But while the global economic transition has come to pass with little fanfare, it will inexorably shape the future of our economic and political life.

Simply stated, we live in a world in which time has collapsed and national boundaries have less meaning. Modern technology gives the private sector -- businesses and individuals -- remarkable freedom to react to the policy decisions of individual governments. Investors are able to move hundreds of billions of dollars, deutsche marks or yen around the world at the touch of a button -- literally, in seconds -- to wherever they are safest and will earn the highest return. Businesses both large and small can put productive capacity on line in whatever part of the globe is most competitive. Old relationships have changed; the Taiwanese now invest in China, while Americans invest in Russia. And what is more, to resist this change by erecting barriers or penalties is to define the limits of a country's future competitiveness and standard of living.

NB-2097

This new world in which we operate affects not only our private lives, but also public policy. The new Administration will face the paradox that the American Government not only governs -- but in a larger context, it is itself governed. Almost two-thirds of global equity market capitalization now lies outside of the United States. The architects of our public policy must be responsive to the needs of a national economy that is bound by a complex web of relationships to a global market -- a market that passes final judgment on each and every major policy decision.

The Bush Administration found many serious obstacles in the path to national competitiveness. We faced these problems squarely -- and we fixed many of them -- even though the President clearly knew that some of the necessary solutions would cause short-term economic and political pain. Our objective was to create conditions that would permit the private American economy to respond best to the new global reality -- and we made substantial progress. The country will benefit from the Administration's efforts. For example:

- Many of the deep, economically and politically painful defense cuts permitted by the end of the Cold War and resulting massive demobilization have been taken.
- Unprecedented free trade agreements with Canada and Mexico have been put in place, creating an extraordinary engine for future economic growth.
- The savings and loan mess has been cleaned up, the decade-old Third World debt crisis is over, and U.S. banks are now more profitable, competitive, and better positioned to support economic growth.
- The 1990 budget agreement -- although politically controversial and ultimately compromised -- did slow the growth of the federal budget deficit.

The next Administration can build upon the foundation we laid. The economy grew at an annual rate of 3.9 percent during the quarter that ended on September 30 of this year, capping six consecutive quarters of growth. During the first nine months of this year, our economy grew at an average rate of 2.8 percent -- which is higher than the Nation's average economic growth rate for the past 25 years.

And the list goes on. Durable goods orders jumped by 3.9 percent in October, while the index of leading economic indicators posted a broad-based increase in the same month. Last month the National Association of Purchasing Management index shot up by 4.4 percent. And just last Friday we learned that the civilian unemployment rate fell to 7.2 percent in November -- the fifth consecutive monthly decline -- and the number of nonfarm payroll jobs rose by 105,000 in November -- the third consecutive monthly increase.

A foundation for future growth is certainly in place. But while building upon it, the next Administration must recognize -- as we did -- the basic reality of modern politics: which is that even the most powerful Government in the world must respect the practical constraints imposed by the new global economy. The market will not yield to misguided governmental directives and stimuli, whatever label they may carry. It will run roughshod over them. As we have seen in the case of long-term interest rates -- they simply will not come to heel without federal deficit reduction. A powerful central bank can spend $25 billion in one afternoon to save its currency from market discipline, and still fail to preserve its status in the European Monetary System's Exchange Rate Mechanism.

This reality will shape any future economic program. If the Government chooses to stimulate the economy by increasing federal spending and widening the deficit, it will aggravate inflationary expectations and threaten the long-term fundamental health of the economy. Interest rates, foreign exchange rates and other market forces ultimately will demand either closure of the budget gap, or the payment of a high economic price.

One does not have to peer far back into history for verification of this. It is no coincidence that in the fall of 1987 -- only days after Congress and the Administration postponed Gramm-Rudman discipline in the midst of a budget stalemate -- the stock market fell 508 points in a single day, destroying over 22 percent of that national storehouse of value. To restore stability, a budget deficit reduction agreement was salvaged a few weeks later, and the market eventually recovered. To be sure, other factors may have contributed to the market break. But one lesson is clear: the markets will always be there to remind policy makers that current consumption -- in the form of government deficit spending, by whatever name -- comes at the expense of future private savings, investment, competitiveness and economic growth.

And do not think that the Government can plug the budget hole with burdensome tax increases that reduce returns on investment in America. In our interconnected global economy, investors will vote with their feet, quite simply, by redirecting capital to a more hospitable place. In the end, jobs will be lost, productivity will decline, and the Nation's competitive position will erode.

Moreover, the American people should not be forced to choose between larger deficits and oppressive taxes -- particularly when there is a third way. In the end, our leaders will not escape the politically difficult course dictated by the new freedom granted to markets: that is, to achieve economic growth we must fix the federal budget deficit by controlling spending. There are no real alternatives.

The genie of the global marketplace is out, and there is no way to force it back into the bottle. The Government no longer has the luxury of making mistakes and fixing them at its leisure. Today's markets -- which are sharper technologically than ever before -- move too quickly. Attitudes must change. I remember about two years ago a powerful Congressional committee chairman said to me that we did not need the spending discipline of Gramm-Rudman -- that if the markets broke, we could fix it later. But the recent events in the European Exchange Rate Mechanism demonstrate the costliness of this attitude. Financial markets can overwhelm even the most determined government -- even, as I mentioned earlier, a government willing to spend $25 billion in an afternoon to pump up its currency. We must recognize the constraints -- and opportunities -- presented by the new economic world.

In my view, the most important, specific challenges that the next Administration will face are ensuring: free trade, economic coordination, regulatory relief, fiscal responsibility and tax reform. Let me comment on each of these.

<u>Free Trade</u>

We must continue the spectacular success the Bush Administration has had over the last four years in opening free trade and growing markets for our exports. U.S. merchandise exports have increased by about $195 billion over the last five years. Exports now support one in six American jobs -- up from one in eight only five years ago.

This trend will continue in the new global economy. Statistics show that we are winning the competition for exports: since 1986, the value of U.S. merchandise exports has risen over three times as fast as Germany's and nearly five times the rate of Japan's.

At the same time, like a rising tide that lifts all ships, free trade raises the living standards of people in other countries, creating new markets for our domestic goods and services. Protectionism -- as it has in the past -- can only backfire, leading to retaliation, loss of American jobs and global economic decline. Managed trade is also a form of protectionism for those industries on which the Government decides to bestow its largesse -- usually, incidentally, at the consumers' expense. And those decisions will inevitably be wrong because the Government -- unlike the market -- allocates resources on the basis of politics, not economic merit.

We need simply to ensure that private enterprise has room to flourish. For example, The North American Free Trade Agreement -- NAFTA -- is an unprecedented opportunity to link our economy to a single market of over 360 million people with a total output of $6-1/2 trillion. President Bush, Prime Minister Mulroney and President Salinas will sign NAFTA in just seven days -- and that agreement should be implemented promptly and without regressive modifications.

Global Economic Coordination

Economic policy must be coordinated, but not as a separate "domestic" matter. There must be a procedure for assimilating the "domestic" and "foreign" elements of economic policy making -- and recognition that there is no concrete distinction between the two realms.

In a global marketplace -- in which the effects of each country's policies ripple throughout the international system -- the contribution of the Treasury Secretary in shaping worldwide macroeconomic policy through the G-7 coordination process is an important component of domestic well-being. Consistent with the importance of G-7 coordination, I believe that world economic summits should be returned to their original purpose -- to coordinate economic policy. The summits should be freed from the carnival atmosphere and array of unrelated social, diplomatic and political issues that now dominate them. While these other issues are important, there are ample opportunities to discuss them elsewhere.

Ideally, G-7 Finance Ministers should manage the international economic coordination process and settle most outstanding issues on an ongoing basis. The Heads of State of the G-7 nations should then meet annually at an economic summit to resolve those economic issues that only they can settle. This more limited format would make the economic summits significantly more effective.

Regulatory Relief

Efforts to achieve global economic coordination will be wasted if our Nation's businesses are left struggling through a morass of counterproductive regulations. We must remember that in a world-wide marketplace, businesses and investors are subject to far fewer constraints than in the past when deciding where to locate new jobs. Superfluous regulation saps our competitive position, and must be resisted.

Excessive regulation is particularly menacing in the financial sector, because banks and other intermediaries are critical to the funding of economic growth. Simply stated, the Congress has been unwilling to restore a sense of balance to banking regulation. A climate of fear among examiners and bankers has placed a regulatory straitjacket on the industry that inhibits prudent lending.

Moreover, because of the multiplicity of banking regulators -- at least four agencies -- there is no way to affix responsibility and accountability. Our regulatory structure was designed for a time long since past. No other major industrialized country surrenders and disperses authority over its banking system in this manner, so that responsibility is obfuscated and no one is in charge. The next Treasury Secretary should be given enhanced authority over the regulatory system to establish the kind of banking system that will reduce the cost of credit and benefit the entire economy.

Fiscal Responsibility

As you all know, the productive capacity of a nation determines the standard of living of its people -- and America has the most productive labor force and economy in the world. You heard me correctly: despite waves of rhetoric to the contrary, studies show that America in the last four years has increased its productivity edge over its trading partners, including Germany and Japan.

But we live in a competitive world, and in order to maintain a rising living standard the task for America is to continue to increase its productivity more rapidly than its trading partners. And since productivity is measured by output per worker, the best way to increase productivity is to increase investment in human and physical capital -- to give our workers the tools and skills they need to compete. Consequently, to maintain a rising standard of living we must reduce short-term consumption and increase long-term private investment.

Now, when the Federal Government taxes in order to spend, it feeds current consumption at the expense of private savings and investment. Worthy as individual programs may be, the fact is that the vast bulk of federal spending is pure consumption. And even when the Government "invests" -- in, for example, infrastructure -- it seldom does so as efficiently as the private sector. No number of intellectuals dancing on the head of a five-year industrial plan can hope to do better. Other countries ran that experiment for us, and it failed. Countries in Latin America and Eastern Europe are increasing freedom and opportunity by heading in precisely the opposite direction. They proved that governments don't create lasting jobs -- they don't know how. Individual entrepreneurs and businesses create jobs.

Consequently, federal deficit reduction is needed in order to raise private investment, economic productivity and living standards. Federal spending must not only be controlled -- but reduced.

The question really is whether a Democratic Congress has the courage to give a Democratic President what the American people want and the country so desperately needs: an effective line item veto that would enable the Executive Branch to curb excessive spending by the Legislative Branch. It is simple: a line item veto would make the President-elect -- and all future Presidents -- more effective Chief Executives.

In addition, a cap on the exponential growth of mandatory spending is absolutely essential. This portion of the budget -- which is the largest by a substantial margin -- is where the bulk of spending growth continues unabated. So make no mistake: you cannot attack the real roots of our deficit problem without taking on mandatory spending.

<u>Tax Reform</u>

One thing is certain: the answer to our deficit problem does not lie in raising tax burdens on investment. Our current system of taxation is already seriously biased against saving and investment and in favor of consumption. Savers have little incentive; they are taxed when they earn money and taxed again if they choose to invest for the future. Corporate profits are taxed twice -- once to the corporation and once to shareholders when distributed as dividends. Capital gains -- even inflation-related gains -- are taxed as heavily as ordinary income. Debt is encouraged. Finally, the needless complexity of the tax code imposes a tremendous cost on businesses and individuals.

There are substantial steps we could take to improve the current system. But if we truly want to encourage savings and investment, we need to practice realism -- not demagoguery. It makes no sense -- out of a pretended sense of "fairness" -- to target IRAs solely to people who can afford to save very little. The meaningful distinction in the tax policy debate is between savers and non-savers. When considered from this perspective, measures like broadly available IRAs, reduced capital gains taxes and the Treasury's recommendations to eliminate the double taxation of corporate profits are clearly the most sensible ways to increase private saving and investment, and hence ensure prosperity for all Americans.

These steps to improve the current tax system would be enormously beneficial. But in my view, more should be done. The plain fact is that in a global marketplace in which investors are free to choose where to put their money, our tax system fundamentally discourages investment in the future. Rather than continuing to rearrange the deck chairs on a sinking ship, the keel of our tax system should be raised and completely overhauled. We should encourage saving and investment rather than consumption, and reward long-term rather than short-term thinking.

At this time of political change, we are provided with an opportunity for dramatic tax reform -- but reform could threaten American pocketbooks. Certain principles should be perfectly clear before we proceed.

- o Most important is the principle that tax reform must not be used as a Trojan Horse for imposing a greater tax burden on businesses and individuals. The only legitimate tax reform is one that creates prudent incentives and reduces the compliance burdens of taxation without diverting more money from the private economy to Government coffers.

- o Before embarking on the potentially dangerous course of tax reform, the public must be protected. As a prerequisite to the reform process, a two-thirds majority vote by Congress should be required in order to impose any net tax increase.

With these principles as a back-drop, it is appropriate to begin exploring options for reform. Many groups have started this process. These efforts are bipartisan; the issues are too difficult -- and far too important -- to become lost in the midst of political struggles.

For our part, we believe that the place to begin is by asking the right question: Is there an alternative to the current federal tax system that is both revenue- and distributionally-neutral, and that would:

- o generate a substantial increase in private sector saving and investment,

- o materially advance our competitive position in the world economy, and

- o dramatically reduce taxpayer burden and administrative costs?

The answer is: "Yes." The Treasury Department is releasing today a White Paper describing "An Option for Fundamental Reform" which meets all of these criteria. Under this option, more than 50 percent of all individual taxpayers would no longer be subject to the income tax. In addition, the rules for business taxpayers would be radically simplified.

At the same time, to maintain revenue, the tax system would be restructured to reduce distortions of private saving and investment decisions by:

- o eliminating the double taxation of corporate profits,
- o repealing the corporate alternative minimum tax, and
- o reforming the rules for taxing multinational business activities.

This option would achieve a substantial reduction in the Government's reliance on income tax revenues through the enactment of a border-adjusted business transfer tax, with exemptions for small business. The base of this business transfer tax is sales less purchases from other firms. This system would finance fundamental reform of the income tax without distorting financial and investment decisions. A greatly expanded tax credit would also be included to ensure that the reform option would be at least as progressive as our tax system today.

More important than the details of the option we have developed is the point that it demonstrates: which is that the possibility for fundamental reform is very real. Of course, other approaches may well be preferred; other approaches are -- and should -- emerge from the political process. Our hope is that we have made a contribution to the effort to stop tinkering at the margin, and to confront the need for fundamental reform in meeting the challenges we face as a Nation as we enter the 21st Century.

In closing, I recognize that transitions always create uncertainty -- but they also create hope for the future. Political leaders change from time to time, and the competitive landscape is perpetually shifting. But one thing is constant: the American people are still the most creative, entrepreneurial and optimistic people in the world. Give them free rein and no unfair burdens and they will meet every new challenge the global economy has in store. It is my hope -- and belief -- that the next American Century will be as bright and brilliant as the last.

RESTRUCTURING THE U.S. TAX SYSTEM

FOR THE 21st CENTURY

AN OPTION FOR FUNDAMENTAL REFORM

U.S. Department of the Treasury
Office of Tax Policy

December 10, 1992

I. *Introduction*

This paper outlines an option for discussion for fundamental reform of the Federal tax system. At the request of Secretary Brady, the Office of Tax Policy addressed the following question:

> *Is there a revenue- and distributionally-neutral alternative to the current Federal tax system that would generate a substantial increase in private-sector saving and investment; materially enhance our competitive position in the world economy; and dramatically reduce taxpayer burden and administrative costs?*

What follows is a description of a system that would satisfy all of the constraints and objectives identified. Its primary features are: (1) a very substantial increase in the standard deduction (more than half of all taxpayers would no longer be subject to the income tax); (2) integration of the corporate and individual income tax systems; (3) repeal of the corporate alternative minimum tax (AMT), and elimination of business-related preferences from the individual AMT; (4) radical simplification and reform of our rules for taxing multinational business activities; and (5) a business transfer tax which would be border-adjustable, include a low- and middle-income refundable tax credit, and exempt small businesses.

The paper describes an option -- not a proposal -- for transforming the tax system. Other tax and fiscal policy issues deserve more immediate attention; the short-term national agenda is driving the tax law in a very different direction; and other fundamental reform options should be considered. *Secretary Brady believes that this option or other options should only be considered if coupled with constraints on spending and limitations on the ability to raise taxes.*

II. *Overview*

1. *A Time to Reassess.* At Secretary Brady's request, the Office of Tax Policy has been exploring options for fundamental reform of the Federal tax system. In large measure, our inquiry has been motivated by a sense that the tax system is ill-suited to the dramatic challenges our country will face in the years ahead. In particular, there is a widespread belief that the system is far too costly and burdensome, discourages savings and investment, and undermines our ability to compete.

While perhaps coincidental, this effort is also timely by reference to a number of historic anniversaries:

> The 16th Amendment to the Constitution was ratified on February 25, 1913. The Federal income tax was enacted as part of The Revenue Act of 1913. While the system has served the country well, its 80th anniversary is an appropriate time to reconsider our substantial reliance on the income tax for financing the Federal Government.
>
> Prior to World War II, only a small fraction of all citizens and businesses were subject to the income tax. In 1943, in order to finance the military effort, Congress instituted wage withholding and increased dramatically the number of individuals

subject to tax (the percentage of the population covered by income tax increased from 45% in 1941 to more than 80% in 1944). Once again, while that system has served the country well, the 50th anniversary of a "universal" income tax is an appropriate time for reevaluation.

Finally, with the end of the Cold War phase of a conflict that has enveloped the world for more than 50 years, and with the transformation of the world's economy in ways that may be as profound as the industrial revolution, now is an appropriate time to reassess whether our tax system is best suited to address the country's needs as we enter the 21st Century.

2. *The Issue.* With these concerns in mind, the Office of Tax Policy addressed the following question:

Is there an alternative to the current Federal tax system that would fulfill the following objectives subject to the following constraints?:

Objective 1 (Taxpayer Burden Reduction)

The alternative should dramatically reduce the administrative and transaction costs that the tax system imposes on individual and business taxpayers, while holding constant or reducing administrative costs to the Government. Our citizens spend hundreds of billions of dollars and hours each year in maintaining records, filing returns, and dealing with the IRS. This represents a terrible waste of resources, a drag on economic growth, and one cause of the public's disaffection with Government.

Objective 2 (Saving Rate)

The alternative should encourage saving and investment. Our saving rate in recent years has fallen by as much as a third, relative to historic U.S. norms. Moreover, the U.S. saving rate during the past decade (5.4%) is well below the saving rates prevalent among our primary international competitors (*e.g.*, 16.0 percent in Japan and 12.4 percent in Germany).

Objective 3 (Compete in World Markets)

The alternative should enhance the ability of U.S. firms to compete against their foreign counterparts. The end of the Cold War highlights -- and will accelerate -- a global economic revolution that has been under way for several decades. By all measures, we remain the most productive and competitive country in the world. However, our relative strength has declined, and our continued ability to compete successfully in the global markets of the 21st Century will be critical to our well-being as a nation.

Constraint 1 (Revenue Neutrality)

The alternative must be revenue-neutral relative to the current system. This constraint was imposed to permit comparison of the two regimes. Either system could be modified to increase or decrease tax revenues.

Constraint 2 (Distributional Neutrality)

Under worst-case assumptions, the alternative must maintain, or enhance, the degree of progressivity embodied in the current system. Again, this constraint was imposed to permit comparison of the two regimes. Either system could be modified to increase or decrease the relative tax burden on various groups of taxpayers.

3. *An Option for Reform.* The Office of Tax Policy has concluded that the current system could be transformed in a manner that would satisfy all of these conditions and objectives. In particular, the reform option discussed in this paper would be revenue-neutral; it would (at a minimum) be somewhat more progressive (even on a current annual income basis); it would result in a dramatic reduction in taxpayer burden and administrative costs; it would generate a substantial increase in savings and investment; and it would enhance our competitive position in the world economy.

Attachment 1 is a chart summarizing an "Option for Reform," and Attachment 2 is an outline summary of that Option. In brief, the primary elements are:

- More than half of all individual taxpayers would no longer be subject to the Federal income tax. This would be achieved through a very substantial increase in the standard deduction.

- The tax law bias in favor of debt financing and the cost of corporate equity capital would be reduced, and incentives for private saving would be increased, by integrating the corporate and individual income tax systems. This would be accomplished by exempting dividends received from tax at the shareholder level, and a step-up in basis of corporate stock to reflect retained earnings.

- Investment incentives would be increased, and market distortions and complexity would be reduced, by repealing the corporate alternative minimum tax (AMT) and elimination of business-related preferences from the individual AMT.

- Our rules for taxing multinational business activities would be radically simplified and reformed to promote efficiency and our ability to compete in world markets. Options range from current taxation of foreign income and an unlimited foreign tax credit, to complete exemption of active foreign income from US tax.

- A business transfer tax (BTT) -- a tax on firms' sales less purchases from other firms -- would be enacted to finance these reforms, enhance the ability of U.S. firms to compete with foreign firms, and provide additional incentives for savings and long-term investment. The BTT would be border-adjustable, include a refundable tax credit for low- and middle-income taxpayers, and exempt small businesses.

III. ***Qualifications and a Cautionary Note***

1. *Many Roads to the Same Destination.* In many respects, the underlying concepts are far more significant than the specific elements of the Option for Reform. The critical notions are: (1) we should *start* with the compelling need to reform the income tax, with a focus on burden reduction, saving rates, and competitiveness; and (2) *then* move on to the notion that a broad-based business transfer tax could be coupled with a refundable tax credit to finance those reforms while maintaining (or enhancing) the progressive nature of our tax system.

In terms of specific components of the package, there are numerous, equally viable, alternatives. Following are a few examples:

- For example, the elements of the BTT and corporate integration proposals could be combined in a comprehensive business income tax or cash flow tax. Others argue that a broad-based energy tax would be preferable to a BTT because it would promote conservation and environmental policies.

- Reform of the income tax could be coupled with various base broadening measures and/or an increase in the BTT rate to finance one or more of the following reforms: (a) significant reductions in corporate and individual tax rates (with some form of surtax on very high-income individuals to maintain progressivity); (b) a further increase in the standard deduction and/or the personal exemption to take additional taxpayers off the tax roles; or (c) a reduction in payroll tax rates.

The important point to emphasize is that these alternatives (and many others) are all compatible with the two constraints and three objectives described above.

2. *Setting Priorities.* Other tax and fiscal policy issues deserve more immediate attention. The highest priority should be placed on putting our fiscal house in order. No other steps we could take will matter in the long run if we fail to reduce the drain on national saving reflected in the Federal budget deficit.

With respect to the deficit, the initial and primary focus should be to limit government spending. It is also the area requiring the most difficult political choices. Above all, it would be a terrible mistake to enact any new source of Federal revenue in the absence of effective, long-term controls over government outlays. It would fail to address the fundamental problems the government faces, and would be little more than a license to steal from the American people.

In addition to the priority of fiscal discipline, there are also practical constraints. It seems likely that short-run priorities will move the tax law in the direction of higher rates and "targeted" incentives. The system has been down this road before. Many believe this road is a dead end if the purpose of the journey is to improve efficiency and productivity, and enhance the welfare of the nation.

Nonetheless, there are indications that the quest for fundamental reform is under way. For example, it is evident in recent studies and proposals by the Committee for Economic Development ("The United States in the New Global Economy: A Rallier of Nations"), Alice Rivlin (*Reviving the American Dream*) and The Strengthening of America Commission ("First Report"), chaired by Senators Nunn and Domenici); and in ongoing work related to budget reform by the Concord Coalition (whose members include Senator Rudman and former Senator Tsongas); and the broad-based consumption tax working group organized by Senators Boren and Danforth.

Over the longer term, forces beyond the government's control --ranging from global competition and the mobility of capital and intellectual property, to the continued erosion of voluntary compliance and taxpayer revolt against escalating compliance and transaction costs -- will compel consideration of changes along the lines we have described.

ATTACHMENT 1

AN OPTION FOR FUNDAMENTAL REFORM

Is there an alternative to the current tax system that would achieve the following objectives, subject to the following constraints:

Objective 1:	Achieve dramatic reductions in taxpayer burden (transaction and compliance costs), while holding constant or reducing the government's cost to administer the system.
Objective 2:	Generate a substantial increase in private-sector saving and investment.
Objective 3:	Enhance materially our competitive position in the world economy.
Constraint 1:	The new system must be revenue-neutral, relative to current law.
Constraint 2:	Under worst-case assumptions, the new system must be distributionally-neutral (or somewhat more progressive), relative to current law.

Following is a summary, in chart form, of a system which would fulfill all three objectives, while satisfying both constraints:

Proposal	Impact
Substantial increase in the individual income tax standard deduction	• Dramatic reduction in taxpayer burden and administrative cost savings: More than one-half of all individual tax-payers (including more than 45% of all sole proprietors and more than 50% of all those operating family farms) no longer subject to the income tax

Integration of the corporate and individual tax systems through a dividend exclusion regime	• Reduce tax law bias in favor of debt financing, unincorporated firms, and retained earnings • Reduce cost of corporate equity capital • Increase incentives for saving • Align our tax system more closely with those of our primary foreign competitors
Repeal corporate alternative minimum tax (AMT) and eliminate business-related preferences from the individual AMT	• Reduce taxpayer burden and administrative costs • Reduce the cost of capital and provide greater certainty regarding after-tax returns, increasing capital investment incentives • Reduce tax law bias that exacerbates cutbacks in business investment during downturns
Simplification and reform of rules for taxing multinational business activities	• Reduce taxpayer burden and administrative costs • Enhance ability of U.S. firms to compete against foreign counterparts in worldwide markets • Reduce the cost of capital, increasing incentives for saving and investment

Enact a business transfer tax (BTT), with the following features: ● Border adjustable ● Low- and middle-income refundable tax credit ● Exemption for small businesses	● Finance other reforms ● Provide additional incentives for saving and long-term investment ● Enhance the ability of U.S. firms to compete with foreign imports ● Refundable credit assures that tax system, taking all reforms into account, is more progressive than current law ● Use of BTT, and exemption for small businesses, assures that increased taxpayer burden and administrative costs are minimal ● Align our tax system more closely with those of other nations

ATTACHMENT 2

RESTRUCTURING THE U.S. TAX SYSTEM FOR THE 21st CENTURY

AN OPTION FOR FUNDAMENTAL REFORM

U.S. Department of the Treasury
Office of Tax Policy

December 10, 1992

OVERVIEW

Objectives of Exercise

- To show how the federal tax system could be significantly restructured in a revenue-neutral and distributionally-neutral manner that would dramatically reduce taxpayer burden and promote greater efficiency, competitiveness, and economic growth.

- This option would make economic sense and bring the U.S. tax system more in line with those of our competitors.

- This is not a blueprint for immediate action--other options should be considered, and priority should be given to the more urgent task of reducing the deficit through limits on government spending.

Basic Elements of Option for Reform

- A very significant increase in the individual income tax standard deduction.

- Exemption of dividends received, and a step-up in basis of corporate stock to reflect retained earnings.

- Repeal of the corporate alternative minimum tax (AMT) and elimination of business-related preferences for the individual AMT.

- Modification of the U.S. international tax system, with options ranging from current taxation of foreign income and an unlimited foreign tax credit, to complete exemption of active foreign income.

- Introduction of a business transfer tax with border adjustments and a low-income refundable tax credit.

RESTRUCTURING THE U.S. TAX SYSTEM FOR THE 21st CENTURY

- The U.S. economy stands at the crossroads.
  - The United States is the most productive nation in the world, but economic growth is sluggish.
  - More funds are needed to support capital formation, to raise productivity and long-term economic growth.
  - Private saving must increase, and government dissaving must decrease.

- The government must get its fiscal house in order.
  - The structural imbalance between Federal spending and Federal receipts must be addressed.
  - The growth rate of mandatory spending must be restrained, and the tax code should encourage saving and investment.

- Like the economy, the tax system stands at the crossroads.
  - One option is to raise marginal rates and create incentives for government-favored activities.
  - A second option is to reduce the economic distortions and administrative complexities of the income tax, and offset the revenue loss through another broad-based tax.

REFORMING THE U.S. TAX SYSTEM

- Important revenue-neutral and distributionally-neutral changes can be made to the structure of the tax system.

  - These changes will make the system less burdensome, improve compliance, and promote economic efficiency and competitiveness.

  - Reducing current distortions and minimizing taxpayer compliance burdens can contribute toward greater economic growth and lower structural deficits--without the disincentives caused by higher marginal tax rates.

- The option for reform put forth here increases economic efficiency by: (1) removing large numbers of families and small businesses from the income tax system; (2) integrating the corporate and individual income tax systems; (3) eliminating the alternative minimum tax; (4) simplifying international tax rules; and (5) substituting revenue from a business transfer tax for some of the revenue currently collected under the individual income tax.

  - These changes confer major benefits in terms of efficiency and competitiveness.

  - Simplification benefits are also large. The changes offer a much more rational balance between the compliance burden imposed on taxpayers and their tax liabilities.

OUTLINING THE BENEFITS OF REFORM

- The revenue-generating role of the individual income tax would be greatly reduced:

  - Individual income tax revenue would be reduced by about 35 percent. Income tax cuts would extend to over 88 million tax returns, *more than 95 percent of all returns that are taxable under current law.*

  - *More than half* of current taxpayers would be removed from Federal income tax rolls. (However, some of these taxpayers would still file abbreviated returns to claim refundable tax credits.)

  - Nearly all small business taxpayers would receive an income tax cut, and a majority would be removed from the income tax rolls altogether.

  - The proposal would reduce the number of itemizers *by nearly 95 percent.*

  - Compliance and administrative costs associated with the individual income tax would be reduced correspondingly.

- The tax burden on capital income would be reduced, encouraging saving and investment.

  - Many Americans, once removed from the income tax rolls, would face no tax on their income from saving.

  - Corporate tax integration eliminates one level of tax on dividends and retained earnings on corporate equity.

  - Elimination of the corporate AMT and business-related preferences for the individual AMT reduces the cost of capital and compliance burdens.

  - Simplification and reform of international tax rules reduce compliance costs and enhance the competitive position of U.S.

REDUCING RELIANCE ON THE INDIVIDUAL INCOME TAX

- The low level of the current-law tax-filing thresholds require millions of low- and moderate-income taxpayers to incur the substantial costs of filing Federal income tax returns and dealing with the IRS.

  - For many of these taxpayers, filing burdens may be very high relative to their tax liabilities. The IRS also must devote resources to processing and verifying these returns.

  - The high compliance and administrative costs imposed by the current income tax cannot be justified by other tax policy goals.

- *Option for Reform*: The tax-filing thresholds would be substantially raised by increasing the standard deduction (*see* the attached table).

- *Effects*

  - These changes are significant: For example, a family of four with an income of $43,200 would pay no individual income tax; and an elderly couple with an income of $38,500 would pay no individual income tax.

  - Simplification benefits and burden reduction would be substantial (*see* the attached table).

Income Tax Thresholds in 1993 Under Current Law and Under Tax Restructuring Package 1/

Filing Status	Number of Dependents	Current Law Without EITC	Current Law With EITC 2/	Tax Restructuring Package	Poverty Level	300% of Poverty Level
Single	1	$6,050	$6,050	$22,000	$7,525	$22,574
Joint	2	10,900	10,900	38,500	9,733	29,198
Head of household	2	10,150	16,896	33,350	9,733	29,198
Joint	4	15,600	19,652	43,200	14,786	44,359
Head of household	4	14,850	19,310	38,050	14,786	44,359
Single, over 65	1	6,950	6,950	22,000	6,937	20,810
Joint, both over 65	2	12,300	12,300	38,500	8,751	26,254

1/ Standard deduction is increased to $19,650 for single filers, $28,650 for heads of households, and $33,800 for married couples filing joint returns. Under current law, the standard deduction in 1993 is: $3,700 for single filers, $5,450 for heads of households, and $6,200 for married couples filing joint returns. The exemption amount in 1993 is unchanged from its current law level: $2,350. The package also repeals the additional standard deduction for age or blindness ($700 for married filers and $900 for unmarried filers).

2/ Assumes fully implemented EITC (that is, 1994 rates).

NOTE: These calculations are based on the following assumptions: (1) poverty thresholds are based on 1991 Census data adjusted for inflation; (2) families with dependents are eligible for the earned income tax credit; (3) all taxpayers are under age 65 unless otherwise indicated; and (4) income consists of money wages and salaries.

Impact of the Reform Option on Returns Filed by Individuals			
Number of returns with:	Current Law	Reform Option	Change
	Millions of taxpayers		
With positive tax liability	89	43	-46 (-52%)
With refundable tax credit	11	47	+36 (+327%)
Itemized deductions	31	2	-29 (-94%)

INTEGRATING THE CORPORATE AND INDIVIDUAL TAX SYSTEMS

- Two levels of income tax are generally imposed on earnings from investments in corporate equity.

- The disparities between the taxation of income from corporate equity investments and other types of investments cause three serious inefficiencies:

  - A tax disincentive to incorporate, which causes many businesses to forego the nontax benefits of operating a business in corporate form, and penalizes business activities requiring corporate form.

  - A tax-motivated preference to use debt rather than equity capital, increasing the likelihood of financial distress.

  - A tax-driven preference to retain earnings rather than pay dividends to shareholders.

- *Option for Reform*: Corporate income will be taxed *no more than once* through a *dividend-exclusion model.*

  - Corporations will pay tax on their income at the corporate level.

  - Shareholders will exclude dividends paid out of permanently excluded income and income that has been previously taxed to the corporation; distributions of other income will be treated as a return of capital.

  - There will be no capital gains tax due on reinvested retained earnings.

- *Effects*: By reducing tax-driven distortions of organizational and financial decisions, the cost of capital will fall, and corporate financial policy will reflect fundamental economic considerations.

ELIMINATING THE CORPORATE AMT AND BUSINESS PREFERENCES FROM THE INDIVIDUAL AMT

- The alternative minimum tax (AMT) operates as a parallel tax system with its own rules for determining income and deductions, generally by way of limiting taxpayers' use of various exclusions, deductions, and credits.

- Although enactment of the AMT was motivated by a desire to foster the perception of equity, it is difficult to support on those grounds.

  - It has perverse effects on investment incentives.

  - It complicates and distorts business investment decisions by creating uncertainty about firms' future tax status.

  - Since firms are more likely to pay the AMT during economic downturns, the increased tax payments under the AMT contribute to overall weakness in the economy.

  - It is complex and creates significant compliance burdens for taxpayers.

- *Option for Reform*: Repeal the corporate AMT, and remove business preferences from the individual AMT.

- *Effects*: AMT repeal will reduce firms' cost of capital and compliance burdens.

REFORMING CORPORATE INTERNATIONAL TAX RULES

- Much concern has been expressed about the rules governing the taxation of transnational economic activity.

  - The transformation of the global economy makes it essential that our tax laws promote efficiency and our ability to compete in world markets, and minimize transaction and compliance costs to taxpayers. There is a general consensus that our current rules violate these norms in many respects.

  - The Office of Tax Policy has undertaken a review, which will result in specific suggestions for reform of our international tax system.

- There is a spectrum of options for reform.

  - *Option #1*: Adopt a modified exemption system (*i.e.*, a system which does not impose U.S. tax on active foreign-source income).

  - *Option #2*: Adopt a regime of current taxation of foreign-source income.

  - *Option #3*: Modify the current system in less radical ways.

  - Under each of these options, the basic regimes governing the taxation of multinational business activities would be dramatically simplified.

INTRODUCING A BUSINESS TRANSFER TAX (BTT)

- Unlike *any* of our major trading partners, the United States does not impose a broad-based consumption tax.

  - The over-reliance of the current Federal tax system on income taxes causes a bias against saving and investment.

  - Under international trading rules, no border tax adjustment can be made for income taxes, while properly structured broad-based consumption taxes can be border-adjusted, promoting competitiveness of U.S. firms.

- *Option for Reform*: The Federal government would impose a broad-based consumption tax at a single rate, with the tax administered as a Business Transfer Tax (BTT).

  - The BTT base would be all domestic sales by businesses, less purchases from other businesses.

  - The BTT would be fully border-adjustable, with the full tax imposed on imports and all tax removed from exports.

  - Small businesses would not be required to be in the BTT system.

  - A refundable BTT credit would be provided to low-income families to offset the effect of the BTT.

- *Effects*

  - Substituting the BTT for portions of the income tax will encourage saving and investment.

  - Unlike some other consumption-tax proposals, the BTT--when included in the overall package of reforms--maintains tax fairness.

    - The introduction of the BTT, combined with income tax reductions and a refundable tax credit, would result in small net tax reductions for low- and middle-income families, and small tax increases for upper-income families.

    - This distributional analysis is based on "worst case" assumptions--*i.e.*, that the *entire burden* of the BTT is borne by consumers and that *all* of the benefits of integration, AMT repeal, and international reform flow through to the owners of capital. To the extent some portion of the BTT is borne by the owners of capital, and/or some portion of the capital and business tax reductions benefit consumers, the tax system would be that much more progressive.

  - Unlike a European-style value added tax, the BTT could be implemented promptly, at relatively modest cost to the private sector and the government.

  - While the BTT, along with the other reforms, will increase savings *rates* and reduce the *percentage* of national income going to current consumption, the *absolute* level of consumption spending will increase over the long term as a result of increased economic growth.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
December 10, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $14,775 million of 52-week bills to be issued December 17, 1992 and to mature December 16, 1993 were accepted today (CUSIP: 912794E67).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.56%	3.71%	96.400
High	3.57%	3.72%	96.390
Average	3.57%	3.72%	96.390

Tenders at the high discount rate were allotted 93%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	9,910	9,910
New York	32,697,535	14,133,485
Philadelphia	3,315	3,315
Cleveland	114,245	112,495
Richmond	28,615	27,215
Atlanta	13,765	13,555
Chicago	1,211,540	220,755
St. Louis	5,235	5,235
Minneapolis	1,330	1,330
Kansas City	14,935	14,935
Dallas	3,265	3,265
San Francisco	868,065	64,565
Treasury	164,740	164,740
TOTALS	$35,136,495	$14,774,800
Type		
Competitive	$30,970,400	$10,608,705
Noncompetitive	326,395	326,395
Subtotal, Public	$31,296,795	$10,935,100
Federal Reserve	3,400,000	3,400,000
Foreign Official Institutions	439,700	439,700
TOTALS	$35,136,495	$14,774,800

NB-2098

A Recommendation for Integration
of
The Individual and Corporate Tax Systems

Department of the Treasury
December 1992

THE SECRETARY OF THE TREASURY
WASHINGTON

December 11, 1992

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed is a description of our recommended approach to integrating the corporate and individual income tax systems. This material is a follow-up to the *Report of the Treasury on Integration of the Individual and Corporate Income Tax Systems—Taxing Business Income Once* (released in January 1992, hereafter the *Treasury Integration Report*). The Treasury Integration Report identified the distortions caused by our current system for taxing corporate profits and the substantial benefits to the economy that would result from integration, and described four alternative integration prototypes. At that time, we committed to recommending a specific integration system in late 1992.

1. **Recommended prototype.** Although each of the prototypes described in the *Treasury Integration Report* has merit, we are recommending a system similar to the *dividend exclusion prototype* for the following reasons:

- Relative to the shareholder allocation and imputation credit prototypes of relieving the double taxation of corporate equity income, the dividend exclusion approach is the most straightforward and easily administered.

- While there are strong arguments that some version of the Comprehensive Business Income Tax (CBIT) prototype may be preferable from a long-term policy and administrative perspective, the dividend exclusion approach can be implemented much more rapidly, with far less potential for disruption of financial markets and many fewer transition issues.

- The dividend exclusion approach is preferable to the shareholder allocation and imputation credit prototypes because it is consistent with our policy view that, over the long-term, it may be desirable to move the tax system in the direction of a schedular tax on enterprise activity (e.g., the CBIT prototype or some version of a business cash flow tax or business transfer tax).

The dividend exclusion model we recommend is simple and will generally tax corporate income once. A corporation will compute its taxable income and pay tax as under current law. Any distribution out of the corporation's income that remains after paying tax and after making certain limited adjustments to taxable income (adjusted taxable income or ATI) is treated as a dividend and is excludable from gross income when received by shareholders. Distributions in excess of ATI are treated as a return of capital to the shareholders (or capital gain to the extent the distribution is in excess of basis).

ATI is defined as corporate taxable income reduced by U.S. federal income taxes and creditable foreign taxes paid or accrued and increased by excludable dividends received and by items that are permanently excluded from income (e.g., tax-exempt interest and percentage depletion in excess of basis). Because distributions in excess of ATI will be treated as a return of capital, no distributions are ever treated as taxable dividends. Thus, under the proposal, earnings and profits (E&P) accounts will no longer be relevant for determining the character of distributions from U.S. corporations. Similarly, the dividends received deduction will no longer be necessary because dividends will be excludable.

While the capital gains tax on the sale of stock will be retained, the proposal allows corporations to adopt Dividend Reinvestment Plans (DRIPs). Through the DRIP, a corporation will deem that a cash dividend was paid to its shareholders out of its ATI and immediately reinvested by the shareholders. The shareholders will pay no tax on the deemed dividend (because dividends are excludable), but will increase their bases in their shares by the amount of the deemed dividend. The effect will be to reduce the capital gains (or increase the capital losses) realized when shareholders sell their stock by an amount equal to the corporation's retained previously-taxed earnings.

2. **Modifications to Treasury Integration Report Version of Dividend Exclusion Prototype.** The principal differences between our current recommendation and the prototype described in the *Treasury Integration Report* are: (a) we treat all distributions in excess of ATI as returns of capital (even if the corporation has E&P); (b) we extend integration to foreign source income (by "flowing-through" creditable foreign taxes); and (c) we recommend an immediate effective date (with limited, elective transition relief for corporate shareholders). We have made these modifications for the following five reasons:

(1) They are more consistent with our stated policy goals.

(2) They create fewer character of income and timing distortions, result in a system that is more easily administered, and permit other significant simplifying changes in the tax law.

(3) We believe that any objection to existing tax law preferences should be addressed directly, rather than through continued reliance on an E&P-based measure of dividends.

(4) We believe that revenue concerns are more properly addressed in a policy-neutral manner (e.g., by scaling back underlying preferences; raising revenue elsewhere in the system; or, if necessary, by scaling back the dividend exclusion).

(5) While extending the benefits of integration to creditable foreign taxes is clearly justified on policy grounds, it also is based on the assumption that reciprocal treatment will be provided by our major trading partners. This recommendation should be reconsidered, and alternatives should be explored, in the absence of reciprocity.

3. **Interaction with Other Tax Policy Issues.** In developing our recommendations, it has become increasingly clear that an integration regime should not be developed in isolation (or under the assumption that other structures in the tax law will remain unchanged). Rather, the design of an integration system should be considered in the context of--and be addressed in a manner consistent with--long-term policy goals relating to the compelling case for international reform, the AMT and corporate preferences, the accumulation and investment of capital by tax-exempt entities (including non-U.S. and taxpayers and companies with substantial net operating losses), and the overriding need for tax simplification and the reduction of taxpayer burden.

4. **Setting priorities.** We recognize that other fiscal and tax policy issues may be given higher priority in the near term, that many of the specific technical issues arising under any integration proposal are yet to be resolved, and that any specific legislation would require off-setting tax law changes to deal with revenue and distributional concerns.

Nonetheless, we remain convinced that integration should be a high-priority, tax policy objective. Current tax law distortions--which encourage debt financing by the corporate sector, penalize businesses conducted in corporate form, discourage dividend distributions, and leave us out of step with our primary international trading partners--impose very real costs on the economy. We believe that these costs are likely to increase in the years ahead and that the case for some form of corporate integration will be all the more compelling.

I urge you to give the recommendation careful consideration in your deliberations on reform of the U.S. tax system. I am sending similar letters to Senator Lloyd Bentsen, Chairman of the Senate Committee on Finance; Senator Bob Packwood; Representative Bill Archer; and Representative Charles Rangel, Chairman of the Subcommittee on Select Revenue Measures.

Sincerely,

Nicholas F. Brady

Nicholas F. Brady

Enclosure

A Recommendation for Integration of the Individual and Corporate Tax Systems

CURRENT LAW

Two levels of income tax are generally imposed on earnings from investments in corporate equity. First, tax is imposed on the corporation's taxable income. Second, if the corporation distributes earnings to shareholders, the earnings are taxed at the shareholder level, either as ordinary income in the case of dividend distributions, or as capital gain in the case of non-dividend distributions in excess of the shareholders' stock bases. Retained earnings are taxed at the shareholder level through the capital gains tax on stock sales.

By contrast, the income on debt investments in corporations is taxed only once because interest expense is generally deductible by the corporation and includable in income by the creditor. In addition, the income on equity investments in unincorporated businesses (such as proprietorships and partnerships), qualifying small business corporations (i.e., S corporations), and certain types of investment corporations (such as regulated investment companies) is generally taxed only once, at the investor level. Distributions from those types of businesses are generally tax-free to the extent they represent earnings that were previously taxed to the investors or are treated as a return of capital to the extent of any excess over previously taxed earnings.

REASONS FOR CHANGE

The disparities between the taxation of income from corporate equity investments and income from other types of investments cause three serious inefficiencies:

- A tax disincentive to incorporate, which causes many businesses to forego the non-tax benefits of operating a business in the corporate form, and a penalty on businesses that must operate in corporate form.

- A tax-motivated preference to use debt rather than equity capital, which encourages corporations to operate with higher debt-equity ratios than they otherwise would choose for non-tax reasons.

- A tax-motivated preference to retain rather than distribute corporate earnings to shareholders.

As discussed in Chapter 13 of the *Report of the Treasury on Integration of the Individual and Corporate Tax Systems — Taxing Business Income Once* (January 1992) (the *Treasury Integration Report*), these biases reduce corporate investment, encourage artificially high debt-equity ratios, and discourage dividend payments, all of which lead to significant inefficiencies and competitive disadvantages to the U.S. economy. An integrated tax system, in which corporate earnings generally are taxed only once, will reduce these distortions and thus provide significant economic benefits. It also will bring our tax system more in line with those of our major trading partners, many of whom have adopted some form of integration of their individual and corporate tax systems.

RECOMMENDATION

Overview

We recommend a corporate/shareholder tax integration scheme that will generally tax corporate income once. Under our recommendation, a corporation computes its taxable income and pays tax as under current law. Any distribution out of the corporation's income that remains after paying tax and after making certain limited adjustments (adjusted taxable income or ATI) is treated as a dividend and is excludable from gross income when received by shareholders. Distributions in excess of ATI are treated as returns of capital to the shareholders (or as capital gain to the extent the distribution exceeds their basis).

ATI is defined as corporate taxable income reduced by U.S. federal income taxes and creditable foreign taxes paid or accrued and increased by excludable dividends received and by items that are permanently excluded from income (e.g., tax-exempt interest and percentage depletion in excess of basis). Because distributions in excess of ATI will be treated as returns of capital, no distributions are ever treated as taxable dividends. Thus, under our recommended approach, earnings and profits (E&P) accounts will no longer be relevant for determining the character of distributions from U.S. corporations. Similarly, the dividends received deduction will no longer be necessary because dividends will be excludable.

The capital gains tax on the sale of stock will be retained. Standing alone, the combination of a dividend exclusion regime and a capital gains tax on stock sales would create artificial incentives to distribute previously taxed income (because dividends would be excludable but increases in stock value that represent retained earnings would be taxed to the selling shareholders) and would comparatively disadvantage corporations that retain earnings for further investment by raising their cost of capital. To minimize this distortion, corporations will be allowed to adopt Dividend Reinvestment Plans (DRIPs). Through the DRIP, a corporation will deem that a cash dividend was paid to its shareholders out of its ATI and immediately reinvested by the shareholders. The shareholders will pay no tax on the deemed dividend (because dividends are excludable), but will increase their bases in their shares by the amount of the deemed dividend. The effect will be to reduce the capital gains (or increase the capital losses) realized when shareholders sell their stock by an amount equal to the corporation's retained previously-taxed earnings. DRIP dividends may be declared at any time during the year.

The ATI system will be fully effective for each corporation in its first taxable year beginning after the date of enactment. A special rule will allow corporations to continue to claim the dividends received deduction for five years.

Discussion

Our major goal in devising a system of integration is to reduce the distortions caused by the current two-level tax system while avoiding a system that was difficult to administer or overly complex. While the ATI system does not eliminate all the distortions under current law, we believe it significantly reduces many of them. The ATI approach treats corporations more like other forms of business and thus reduces the tax disincentive to incorporate. It treats equity more favorably than does current law, reducing the disparity between debt and equity. Finally, it reduces the tax incentive to retain earnings, because dividend distributions will be excludable by shareholders.

In addition, the ATI system is both administrable and understandable. By drawing heavily from existing rules, the ATI system reduces the need to implement new sets of rules where existing law is well established. The recommended changes to current law should simplify the corporate tax system (e.g., ATI is easier to compute than E&P, the concept it largely replaces). All distributions are either dividends (and therefore excludable) or returns of capital, simplifying shareholder level treatment as well. The DRIP provisions add some complexity because the DRIP allows upward adjustments of shareholder basis, but the DRIP rules are necessary to avoid creating tax incentives to distribute income. Finally, a number of existing tax rules will be repealed as unnecessary, further simplifying the tax laws. Thus, we believe that the ATI system reduces current law distortions within the context of an administrable system.

Although each of the prototypes described in the *Treasury Integration Report* has its merits, the system we recommend is similar to the dividend exclusion prototype described in Chapter 2 of the *Treasury Integration Report*. Relative to the shareholder allocation and imputation credit prototypes, the dividend exclusion system is the most easily administered approach to relieving the double taxation of equity earnings. While there are strong arguments that the Comprehensive Business Income Tax (CBIT) prototype may be preferable from a long-term policy (and administrative) perspective, the dividend exclusion approach can be implemented much more rapidly, with far less potential for disruption of financial markets and many fewer transition issues. In addition, the dividend exclusion system is preferable to the shareholder allocation and imputation credit prototypes because it is consistent with our policy view that, over the long term, it may be desirable to move the tax system in the direction of a schedular tax on enterprise activity (e.g., the CBIT approach or some version of a business transfer tax).

There are two principal differences between the system we now recommend and the dividend exclusion system described in the *Treasury Integration Report*. First, our recommended system treats all distributions in excess of previously taxed income as returns of capital (even if the corporation has E&P). Second, our recommended system extends integration to foreign source income by flowing through creditable foreign taxes although this extension of integration benefits to foreign taxes is predicated on the assumption that our major trading partners will, over time, provide reciprocal treatment.

The dividend exclusion system in the *Treasury Integration Report* would have treated distributions in excess of previously taxed income (up to the amount of available E&P) as taxable dividends. Two basic considerations were implicit in that decision. First, to the extent that E&P is viewed as reflecting economic income, the *Treasury Integration Report* reasoned that the distribution of that income from corporate solution should trigger a tax at the investor level if a domestic corporate level tax had not already been imposed. Second, the *Treasury Integration Report* gave significant weight to the revenue cost of repealing the E&P-based measure of dividends.

Although these concerns remain valid, we are now placing greater emphasis on simplicity and economic efficiency, and therefore have concluded that the E&P-based measure of dividends should be eliminated and replaced with the ATI approach. Compared to the E&P approach, the ATI system (i) more closely parallels a schedular tax on enterprise activity, (ii) reduces tax-based distortions among different forms of business enterprise, and (iii) reduces artificial incentives to retain earnings. In addition, the ATI approach creates fewer character and timing distortions, is more easily administered, and permits other significant simplifying changes in the tax law. We also believe that any objection to existing tax preferences should be addressed directly, rather than through reliance on E&P. Finally, we recommend addressing revenue concerns in a policy-neutral manner (e.g., by scaling back the underlying preferences, raising revenue elsewhere in the system, or, if necessary, by allowing only a partial exclusion of dividends), rather than by retaining the E&P regime.[1]

Thus, we recommend a dividend exclusion system based on ATI rather than E&P.[2] Under this system, preference income will receive one of two possible treatments depending on whether the preference is a timing preference or a permanent exclusion. Corporate distributions attributable to a timing preference, such as accelerated depreciation, will reduce shareholder basis. If the shareholder holds the stock until the timing preference reverses, basis can be restored through a DRIP dividend when the corporation recognizes the deferred income. If the shareholder sells the stock before the timing preference reverses, the preference will be recaptured through a capital gains tax on the stock sale, approximating the result that would have

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[1] A partial dividend exclusion system would treat distributions out of ATI as part excludable and part returns of capital to shareholders. If the revenue cost of such a partial dividend exclusion system is still too high, an alternative partial exclusion would treat distributions out of ATI as partially excludable and partially taxable to shareholders. If the revenue cost needs to be reduced even further, we would recommend an E&P-based system modeled after the dividend exclusion prototype in the *Treasury Integration Report*.

[2] We also considered a regime that retained the E&P measure of dividends, but provided that all distributions from E&P would be excluded from income at the shareholder level. We rejected this alternative for some of the same reasons that we decided not to retain E&P as a measure of taxable dividend distributions (e.g., retention of the same tax base for all purposes; minimization of timing and character distortions; and ease of administration). Moreover, we were concerned that the E&P approach would further exacerbate the distinctions between inside and outside basis. The basis reduction approach we have adopted is admittedly rough justice, and will result in distortions in a number of real-world cases. While an exclusion based on E&P would mitigate some of these concerns, it would create other more troublesome distortions (e.g., a significant shifting in the nominal incidence of taxation on disposition of shares following distributions from E&P in excess of ATI).

followed if the corporation had sold a portion of the asset that created the preference. When the corporation eventually pays the deferred tax, the new shareholders will receive an offsetting basis adjustment. Distributions attributable to permanent exclusions will not reduce shareholder basis, because reducing basis would result in a recapture of preferences that were meant to be permanent. Thus, these preferences are made excludable by including them in ATI.

The *Treasury Integration Report* also recommended against extending the benefit of integration to creditable foreign taxes. While we are continuing to study this issue as part of our International Tax Study, we believe that passing through foreign tax credits is consistent with the fundamental goals of integration. It also furthers the goal of capital export neutrality, because equivalent integration treatment applies to corporations earning foreign source income and corporations earning U.S. source income. We therefore recommend extending integration to creditable foreign taxes, provided that our major trading partners grant reciprocal treatment. At present, other countries with integrated tax systems generally do not pass through foreign tax credits.[3] If this continues to be the case, we will reconsider our recommendation.[4] An alternative would be to pass through foreign tax credits by treaty in cases where the treaty partner grants reciprocal benefits, although this could entail a significant level of complexity. The ATI system can be modified so that it does not extend integration to foreign taxes by providing for either a basis adjustment or shareholder-level income inclusion upon the distribution of income sheltered by foreign tax credits.

TECHNICAL EXPLANATION

Recommendation 1: Retention of Current Law

(a) Corporations will continue to calculate their income under current law rules and will pay tax according to the existing graduated rate schedule. Credits, including foreign tax credits, will offset corporate tax as under current law.

(b) Distributions in excess of basis will continue to be taxed as gains from the sale or exchange of property. The distinction under section 302 between redemptions that are treated as section 301 distributions (i.e., generally as dividends) and redemptions that are treated as in exchange for stock (i.e., generally as capital transactions) will remain. The rules governing corporate transactions, such as acquisitive and divisive reorganizations, liquidations, and taxable acquisitions will

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[3] The Ruding Committee, however, has recommended that countries within the European Community with integrated tax systems extend integration benefits to foreign taxes levied by other members of the European Community. See Commission of the European Communities, *Report of the Committee of Independent Experts on Company Taxation* (1992).

[4] Excluding the pass-through of creditable foreign taxes from our integration recommendation could also be justified on revenue grounds. On balance, however, we recommend addressing revenue concerns in other ways.

generally be the same as under current law. Corporations will continue to be eligible to file consolidated returns as under current law, although the consolidated return regulations will be amended to conform to the integrated corporate tax.

Discussion: The desire to retain current law was a major reason for choosing a dividend exclusion system. Retaining current law significantly simplifies the transition to integration by relying on established principles and rules. To the extent current law is modified, the changes generally result in simplification or repeal of existing rules and a reduction in taxpayer burdens. Recommendation 1 summarizes the major components of corporate tax law that are retained.

Recommendation 2: Definition of Adjusted Taxable Income

(a) In General: Each year, corporations will compute their addition to ATI. The addition to ATI is equal to taxable income (calculated after the application of any loss carryforward), reduced by (i) the regular U.S. federal income tax liability before the application of any minimum tax credits and (ii) creditable foreign taxes paid, deemed paid or accrued during the taxable year, and increased by (i) excludable dividends received and (ii) items that are permanently excluded from income. Permanent exclusions include tax-exempt interest under section 103 and percentage depletion in excess of basis.

(b) Special Rule for the Alternative Minimum Tax: Corporations paying alternative minimum tax (AMT) increase ATI by the amount of their AMT liability, grossed-up by a factor of 66/34, and decrease ATI by an amount equal to 20 percent of the amount by which they increased ATI for permanent exclusions, grossed-up by a factor of 66/34. In addition, corporations must decrease ATI by minimum tax credits used during the taxable year, grossed-up by a factor of 66/34.

Discussion: By starting with taxable income, ATI does not initially include any preference income. ATI is then adjusted downward by U.S. federal income taxes paid after the application of credits other than the minimum tax credit. Creditable foreign taxes reduce the amount of after-tax income available for distribution, so ATI is reduced by all creditable foreign taxes, including foreign taxes in excess of the amount that can be used to reduce U.S. tax liability for the taxable year. ATI is then adjusted upward by certain permanent exclusions. In general, the practical effect of this definition is that preference income other than income sheltered by credits and by permanent exclusions will not be included in ATI. By including permanent exclusions and credits in ATI, Recommendation 2 allows shareholders to exclude distributions attributable to those items without a reduction in basis. This treatment is appropriate because basis reduction for permanent preferences would make the preferences temporary.[5]

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[5] We realize that ATI may not accurately reflect all of the current rules that govern income and basis (e.g., sections 108 and 167(e)(3)). Nevertheless, to keep the system simple, we did not adjust ATI for these items. If significant distortions result, the ATI rules can be amended.

The calculation of ATI begins with taxable income (which cannot be less than zero) and adds permanent exclusions. Thus, if the corporation has an overall loss for the year but has permanently excluded earnings, the corporation may still distribute excludable dividends during the year. For example, a corporation with a loss of $100 and tax-exempt interest of $10 has $10 of ATI and can distribute $10 of excludable dividends. The net operating loss of $100 can be carried forward against other years' taxable income.

As previously announced, we are studying the effects of the corporate AMT. While our study is not complete, it is clear that the AMT creates economic distortions, and that substantial reform or outright repeal of the AMT may be warranted. The AMT also complicates the calculation of ATI because the AMT operates on a separate, parallel tax base (alternative minimum taxable income). We considered using alternative minimum taxable income for determining ATI for AMT taxpayers, but this would add complexity, allow AMT taxpayers to pass through timing preferences without a basis reduction, and cause discontinuities whereby a modest change in items of income or deduction could cause an extraordinary fluctuation in ATI. We also considered ignoring the AMT and the minimum tax credit for purposes of computing ATI, both for reasons of simplicity and on the theory that the AMT is essentially a prepayment of regular tax. We rejected this approach because some taxpayers are subject to the AMT for many years. For these taxpayers, the AMT becomes their corporate-level tax regime. Ignoring AMT paid would inappropriately deny these taxpayers the benefits of integration.

We opted for an approach whereby AMT paid is grossed-up and added to ATI.[6] The amount of permanent exclusions added to ATI is reduced for corporations that pay AMT, so that permanent exclusions are not double counted in computing ATI. The 66/34 gross-up factor insures that dividends will be paid only out of fully taxed income. The alternative was to gross up AMT at the AMT rate (i.e., by a factor of 80/20). An 80/20 gross-up, however, allows the corporation to distribute preference income without a shareholder basis reduction. For example, suppose a corporation has no regular taxable income and $100 of alternative minimum taxable income due to timing preferences. The corporation pays no regular tax and $20 of AMT. If the gross-up were 80/20, the corporation would generate $80 of ATI and could pay $80 of excludable dividends to its shareholders. The earnings would not be taxed at a 34 percent rate until the preferences reversed and the corporation were subject to the regular tax, regardless of whether the shareholders sold their stock. With a 66/34 gross-up, the $20 of AMT will generate $38.82 of ATI. If the corporation makes an $80 distribution, the remaining $41.18 will reduce the shareholders' bases. If the shareholders are taxable at a 34 percent rate, the difference between the 20 percent rate imposed through the AMT and the 34 percent rate of the regular tax will be recaptured if the shareholders sell their stock before the preferences reverse (34 percent

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6 Minimum tax credits are grossed up and subtracted from ATI in the year they are applied to reduce regular tax liability. We considered not reducing ATI by minimum tax credits that were earned before the effective date of the integration system. This would require all corporations to maintain a pre-enactment minimum tax credit account and apply a stacking rule (e.g., FIFO) to determine when the pre-enactment credits were used and would result in significant complexity. Our recommendation of an immediate effective date necessarily creates detriments to some taxpayers and windfalls for other taxpayers, and we are not generally recommending any correction for those losses or gains.

of $41.18 is $14). This treatment is consistent with our general rule that distributions from earnings that have not been fully taxed reduce basis.

Recommendation 3: Dividends

(a) Distributions will be classified as dividends to the extent they are paid (or deemed paid) out of current or accumulated ATI. E&P no longer controls the treatment of distributions from U.S. corporations and all distributions not out of ATI are treated as returns of capital. If distributions in a given year exceed available ATI, ATI will be allocated first by the priority of the classes of stock on which distributions were paid during the taxable year. For classes of equal priority, or for multiple distributions paid within a single class of stock, ATI will be allocated under a "first-in-time" rule.

(b) Shareholders will exclude all dividends from gross income. As under current law, shareholders will not reduce their share bases when dividends are received.

(c) Distributions in excess of ATI will not be classified as dividends, and will instead be treated as returns of capital.

Discussion: The highest priority, first-in-time allocation of ATI to distributions reduces potential uncertainty about the amount of a distribution that is treated as a dividend. Moreover, the allocation rule is consistent with non-tax rules governing priorities and claims, and as a practical matter allows preferred stock generally to continue paying non-taxable dividends.

The disadvantage of the highest priority, first-in-time rule is that it may allow a corporation to "stream" its dividends by creating multiple classes of stock, some of which receive dividends (and are held by taxable shareholders) and some of which receive non-dividend distributions (and are held by tax-exempt shareholders). While the same issue arises under current law, its practical significance would increase substantially under the integration regime we are recommending because the dividend base will be reduced (ATI will often be less than E&P on a year-to-year basis and, as noted below, the "nimble dividend rule" will be eliminated).

In theory, this concern could be addressed by allocating ATI pro rata among all distributions made during the taxable year. A pro rata approach would reduce the possibility of streaming in the case of routine distributions with respect to multiple classes of stock, but would create other problems. The amount of any given distribution that is a dividend would depend on the amount of distributions made later in the year. This would raise uncertainty and would make declaring DRIP dividends difficult, except where there is a sufficiently large amount of ATI. On balance, we chose to use a highest priority, first-in-time rule and to address streaming concerns with other rules (many of which are in place under existing law) and a general anti-abuse rule.

We chose to allow dividends out of estimated ATI for the current year. Any other rule would require dividends to be paid out of ATI one year in arrears, a requirement inconsistent with the goals of our recommended approach.

We did not adopt the nimble dividend rule of current law (which allows dividends out of current E&P notwithstanding a deficit of accumulated E&P). We recognize that eliminating the nimble dividend rule may mean that corporations with large net operating loss carryforwards will be unable to pay dividends until the losses are used up because taxable income, the starting point for ATI, is calculated after the application of loss carryforwards. Nevertheless, where the estimated current year's taxable income, after the application of any loss carryforwards, is zero, the corporation has not produced any taxable income for distribution as a dividend. Consequently, a distribution under those circumstances is more properly treated as a return of capital.

We considered imposing a surrogate tax in cases where a corporation informs shareholders that a dividend is excludable but later finds that it has insufficient ATI to support the dividend. The tax would have been refundable when the corporation produced ATI and would have offset ATI (when refunded) by a grossed-up amount. The effect would have been an interest charge on the reduced tax that shareholders would have paid if they had sold during the period between the erroneous dividend and the refund of the surrogate tax. We opted not to impose a surrogate tax because of the problems with determining the appropriate blended rate for the tax. Instead, the Commissioner will have the authority to impose a surrogate tax at the maximum shareholder tax rate (currently the 34 percent corporate tax rate) where ATI has not been reported in good faith (e.g., where ATI is not reported consistently with estimated tax payments).

Although the amount of a distribution that is considered a dividend is determined by a corporation's ATI, not its E&P, we do not recommend eliminating E&P for all purposes. In particular, E&P will be retained for various computations relating to foreign corporations. We are studying ways in which E&P computations under these other provisions can be simplified or eliminated.

Recommendation 4: Treatment of Redemptions

(a) In General: The distinction between a redemption that qualifies as a payment in exchange for stock under section 302(b) and a redemption that is treated as a section 301 distribution will remain as under current law. Redemptions that qualify under section 302(b) will generally not reduce ATI even though such redemptions reduce a pro rata portion of E&P under current law.

(b) Significant Redemptions: Section 302(b) redemptions of stock from significant shareholders, defined as those shareholders holding at least five percent of a corporation's equity (with attribution rules), will reduce ATI pro rata and give rise to a corresponding increase in the basis of the redeemed shares. In addition, a corporation that redeems more than five percent of its stock (by vote or value) from any group of shareholders in section 302(b) redemptions will be subject to the same pro rata ATI reduction, basis increase rules. All redemptions that take place within a one-year period will be aggregated for purposes of this rule.

(c) Special Rule: Corporations will be allowed to assume that there are no section 318 relationships (which might cause redemptions that would otherwise qualify under section 302(b) not to qualify) among small shareholders (defined as those that hold less than one percent of the corporate equity). In addition, corporations will be allowed to assume that small shareholders are not purchasing stock at the time of a redemption in a manner that could cause a redemption to fail to qualify under section 302(b).

(d) Treatment of Shareholders: Shareholders will treat redemptions that qualify under section 302(b) as a sale or exchange of their stock. Shareholders will receive a statement from the corporation if they are entitled to a basis increase in connection with such sale or exchange (whether by reason of the significant redemptions rule described above, or because the corporation has declared one or more DRIP dividends prior to the redemption).

Discussion: We chose generally to treat section 302(b) redemptions of stock like sales of stock and to retain the existing rules of section 302(b) for distinguishing a true redemption from a corporate distribution.[7] A selling shareholder in a widely-held corporation generally will not distinguish between selling shares to a third party and selling shares to the corporation. Given this fact and our preference for retaining current law, we believe that sales of stock to the corporation that qualify under section 302(b) should generally be treated the same as sales to third parties.

Nevertheless, some section 302(b) redemptions should be treated as a pro rata distribution of ATI plus a return of capital to the redeemed shareholders. This rule is needed to prevent corporations from streaming through a combination of redemptions of tax-exempt shareholders and dividend payments to taxable shareholders.[8] Thus, in redemptions of large shareholders and

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[7] We recognize that the rules of section 302 reflect a bias towards treating redemptions as dividend distributions, a result that has historically been unfavorable to individual shareholders, but favorable to corporate shareholders. Under our recommended system, all taxable shareholders will prefer dividend treatment, a result not contemplated by the drafters of section 302. Nevertheless, the section 302 rules generally should produce the correct result under our recommended system.

[8] For example, consider a corporation with two shareholders, one taxable and one tax-exempt, each contributing $500 to the corporation. If the corporation earns $100 of after-tax profits (and therefore has $100 of ATI), it can redeem the tax-exempt shareholder for $550. This will leave the taxable shareholder with $500 of basis in a corporation with a value of $550 and ATI of $100. The corporation can pay a $100 dividend and the taxable shareholder can sell its stock for a $50 loss.

(continued...)

in large redemptions, a corporation's ATI is reduced and the selling shareholders' stock bases are correspondingly increased. For example, if a corporation redeems two percent of its stock from a five percent shareholder, the corporation will reduce its ATI by two percent and the shareholder will correspondingly reduce its amount realized. Similarly, a successful public self-tender for seven percent of a corporation's stock will reduce the corporation's ATI by seven percent and the shareholders will correspondingly reduce their amounts realized.

This treatment of significant redemptions may appear to be more favorable than the treatment of small redemptions of small shareholders. A corporation can equalize the treatment of redemptions, however, by declaring a DRIP dividend before purchasing its own stock. Moreover, because ATI is not reduced in small redemptions of small shareholders, ATI is retained in the corporation to support excludable dividends to all other shareholders.

We recommend special rules allowing a corporation to assume that there are no section 318 relationships among small shareholders because of the new corporate level distinction between redemptions that qualify under section 302(b) and those that do not (i.e., the former generally will not reduce ATI while the latter will).

Recommendation 5: Sections 305 and 306

(a) Section 305: Distributions of stock of the corporation to existing shareholders generally will not affect ATI. Nevertheless, the rules under section 305 for classifying certain stock distributions as distributions of property under section 301 will remain. To the extent that, under section 305, stock dividends are characterized as distributions to which section 301 applies, shareholders receiving stock will be treated accordingly and the corporation will make appropriate adjustments to ATI.

(b) Section 306 will be repealed.

Discussion: We chose to retain section 305 to prevent streaming by paying excludable dividends on one class of stock (held by taxable investors) and stock distributions on another class (held by tax-exempt investors). In such a transaction, the distribution of stock would dilute the class receiving cash, creating a loss on that class when sold. The loss is theoretically offset by gain on the sale of the distributed stock, but if that stock is held by tax-exempts, the gain will never be taxed. Section 305 reduces this possibility by treating certain stock distributions as distributions of property under section 301.

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[8](...continued)

The pro rata ATI reduction rule will not allow corporations to stream through the opposite transaction of redeeming taxable shareholders and reducing ATI in the redemption. In the above example, if the corporation redeems its taxable shareholder, ATI will be reduced by $50 and the shareholder will recognize no gain or loss on the redemption. The tax-exempt shareholder will be left with $500 of basis in a corporation with a value of $550 and ATI of $50.

Section 306 will be repealed because preferred stock bailouts will not offer the same benefits under the ATI system as when dividends were taxable as ordinary income.

Recommendation 6: Adjustments to Tax and Refunds

(a) Adjustments to a corporation's taxable income for a prior year will be reflected as adjustments to the corporation's ATI in the current year. An increase in a prior year's taxable income, therefore, will increase the ATI (by an amount net of the increased taxes paid) in the year the adjustment is made and the additional tax is paid.

(b) ATI may not be reduced below zero. To the extent that ATI would be reduced below zero by a downward adjustment to taxable income that would give rise to a refund, the refund will not be paid to the corporation. Instead, adjustments to the corporation's taxable income in excess of the amount necessary to reduce ATI to zero will be carried forward to reduce future taxable income.

Discussion: Adjustments to a corporation's tax liability for a prior year must be reflected in ATI in the year the adjustment is made because of the practical problems with recharacterizing distributions made in prior years. If, for example, when a corporation agreed in 1998 to report additional net taxable income for 1993, the corporation's ATI were increased for 1993, actual 1993 distributions that were reported as returns of capital to shareholders would become excludable dividends. The corporation's shareholders might have to amend their returns for 1993 (or for subsequent years prior to 1998, if they disposed of their shares during that period). The obvious problems with this approach led to the rule requiring ATI to be adjusted in the year the additional taxes are paid or refunded.

ATI cannot be reduced below zero by losses or downward adjustments to taxable income. Allowing ATI to be reduced below zero would be the equivalent of a loan from the Treasury to the shareholders who had received excludable dividends. The loan would be repaid by the corporation only if and when it had paid sufficient corporate taxes to increase its ATI to zero. If the corporation ceased doing business, the loan might never be repaid. We considered allowing corporations to receive tax refunds in excess of ATI at the cost of reducing current shareholders' stock bases. We rejected this approach because of problems where the stock has changed hands between the initial distribution of ATI and the subsequent refund of tax. We therefore recommend requiring corporations to use the net operating loss or downward adjustment to taxable income against future taxable income.

Recommendation 7: Dividend Reinvestment Plans

(a) In General: If a corporation has an ATI account with a balance greater than zero, the corporation may declare a DRIP dividend. The corporation will be deemed to have paid a cash dividend and the shareholders will be deemed to have received the cash and recontributed it to the corporation. Because a corporation may only declare DRIP dividends to the extent of ATI, DRIP dividends are always excludable by the shareholders. The only effects of a DRIP dividend are to increase the shareholders' share bases by the amount of the DRIP dividend and to reduce the corporation's ATI by an identical amount.

(b) Method of Declaring a DRIP Dividend: Corporations will declare DRIP dividends in the same manner that they declare actual dividends, including the amount of any such DRIP dividend and the class or classes of stock on which the DRIP dividend will be deemed paid. Allocations of ATI to DRIP dividends are the same as allocations of ATI to cash dividends.

Discussion: We considered a number of ways to equalize the treatment of those corporations that choose to retain earnings and those that choose to distribute earnings. As noted in Chapter 8 of the *Treasury Integration Report*, reducing or eliminating the tax on capital gains when stock is sold introduces other problems into the system. We therefore chose to allow corporations to declare DRIP dividends. While the DRIP mechanism adds complexity to our recommendation, it is needed for two reasons. First, it prevents a tax law bias favoring the current payout of dividends. Second, it equalizes the treatment of widely- and closely-held corporations (because the latter could replicate the DRIP result using actual dividend, recontribution transactions).[9]

We chose to allow corporations the same flexibility in declaring DRIP dividends that they possess in declaring actual dividends. Although it may increase opportunities for streaming, this flexibility is consistent with the corporation's ability to determine its own dividend policy under current law, and is necessary to permit corporations to implement cost-efficient capital structures.

We considered requiring corporations to declare DRIP dividends with respect to otherwise undistributed ATI, at the latest, during the year following the year in which the ATI was generated (a mandatory DRIP). The practical effect of this rule would have been to limit ATI accumulations to not more than the amount produced in the last two years. A mandatory DRIP would prevent large accumulated ATI accounts in most cases, and thus would reduce corporations' interest in and opportunity for dividend stripping, streaming, "trafficking" in ATI, and other similar transactions.

We concluded that a mandatory DRIP would not eliminate the need for anti-abuse rules, and that it might interfere with the attempts of corporations in cyclical businesses to maintain level dividend payment policies. As a result of the mandatory DRIP, shareholders during upturns

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[9] Unlike DRIP dividends, which increase the basis of shares pro rata, actual cash dividends followed by a purchase of new shares concentrate basis in the recently-purchased shares. This is similar to the result under dividend reinvestment plans that some corporations have in place under current law. We considered allowing corporations to declare pro rata stock dividends instead of DRIP dividends, and thereby concentrate basis in the distributed shares. We rejected this approach because of mechanical complexities and because corporations can achieve similar results under section 305.

could receive both cash dividends and DRIP dividends resulting in basis increases, while shareholders during downturns could receive return of capital distributions.

A second concern about mandatory DRIPs relates to the broader issue of net operating losses (NOLs).[10] The practical effect of a mandatory DRIP, coupled with the rule limiting tax refunds attributable to adjustments and tax losses to available ATI, would be to eliminate the 3-year NOL carryback period. While the same result would follow if the corporation voluntarily declared sufficient actual or deemed dividends, there is a difference between voluntary and mandatory imposition of this regime.

On balance, we believe that the benefits of a mandatory DRIP (particularly in reducing the potential for streaming or other tax-motivated transactions) are outweighed by its detriments. We chose to address concerns about streaming and other tax-motivated transactions through a combination of existing law and a new general anti-abuse rule (see Recommendation 19).

Recommendation 8: Corporate Transactions

(a) Distributions of Appreciated Property: Current law rules of section 311(b), requiring recognition of gain on corporate distributions of appreciated property, will continue to apply.

(b) Liquidations: Liquidations will be taxed to the corporation as under current law. Upon a section 331 liquidation, the corporation may declare actual or DRIP dividends and thereby allocate its ATI among its classes of stock. Liquidations that qualify under section 332 will continue to be tax-free, with appropriate adjustments to ATI for minority shareholders.

(c) Taxable Acquisitions: Taxable acquisitions will be treated as under current law and section 338(h)(10) will remain available. As a result, a stock acquisition will not affect the target corporation's ATI.

(d) Acquisitive Reorganizations: Current law rules that treat a qualifying corporate reorganization as tax-free at the corporate level and at the shareholder level will remain available. Section 381, providing for the carryover of certain corporate attributes, will be extended to provide for the carryover of the target's ATI balance.

(e) Divisive Reorganizations: Current law rules governing tax-free divisive reorganizations will remain, except that the device restriction of section 355 will be repealed. Under current law, E&P of the distributing corporation in a division

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[10] As discussed above, distributions from corporations with NOL carryforwards will generally represent returns of capital.

> that qualifies as a reorganization under section 368(a)(1)(D) are divided between the distributing corporation and the controlled corporation based on the relative fair market values of their assets. Rules for the division of ATI will follow these rules.

Discussion: We chose to continue to impose a corporate level tax on distributions of appreciated property. The alternative was allowing a carryover or substituted basis for distributions of appreciated property, as under the partnership rules. Following the partnership rules would defer the tax and collect the tax at the shareholder rate. Collecting the tax at the corporate level rather than the shareholder level, however, is consistent with the policy of collecting a single level of tax at the corporate rate. While a comprehensive carryover basis regime governing the transfer of assets can be justified on policy grounds, it would be inappropriate (and unadministrable) to take a limited step in that direction solely in the context of corporate distributions to shareholders.

Liquidations are treated as under current law, except that the corporation may allocate all of its ATI to shareholders during the liquidation. The ability of corporations to allocate ATI upon a liquidation may present opportunities for streaming, but these opportunities should be no worse upon liquidation than for ongoing corporations. Moreover, the general anti-abuse rule will discourage tax-motivated allocations in liquidation.

Under a dividend exclusion system, existing section 338(a) is of minimal use because it imposes a tax on the buyer, not the seller. A rule modeled after section 338(h)(10) would be more effective, because the ATI produced by the deemed asset sale could be used immediately by the selling shareholders. We considered extending section 338(h)(10) to all targets (instead of just targets in consolidated groups) and all buyers (instead of just corporate buyers). For now, we recommend retaining the existing limits on section 338(h)(10) because of the complexity of extending section 338(h)(10) to all targets and all buyers. We are studying ways to broaden section 338(h)(10).

We recommend repealing the device restriction of section 355, because it is no longer necessary where dividends are not taxed. We retained the rest of section 355 because of the important distinction between divisive reorganizations and section 311 distributions.

Recommendation 9: Consolidated Returns

> Affiliated groups of corporations will continue to be allowed to file consolidated returns. ATI, like E&P under current law, will be calculated separately for each member of a consolidated group. As under the current consolidated return regulations governing E&P, ATI will flow up to the common parent. Special rules will apply to ensure that ATI is not duplicated when a member leaves the consolidated group.

Discussion: We continue to believe that affiliated groups of corporations should be permitted to file consolidated returns to reduce any remaining distortions between operating as separate divisions and operating as separate corporations. We are continuing to study what adjustments to the consolidated return regulations would be necessary under the ATI system. This review is taking place in the context of our ongoing, broad-based reconsideration of the consolidated return regulations, as reflected in the recently proposed investment adjustment regulations, the forthcoming deferred intercompany transaction regulations, and our overall movement in the direction of a single entity approach for affiliated groups, as evidenced by the loss disallowance regulations.

Recommendation 10: Pass-through Entities

> The current treatment of S corporations, partnerships, and other pass-through entities, such as regulated investment companies, real estate investment trusts and real estate mortgage investment conduits, will be retained.

Discussion: We recognize that retaining current law treatment of S corporations, partnerships, and other pass-through entities is somewhat inconsistent with our long-term policy preference for a schedular tax on enterprise activity and our goal of tax simplification. Nonetheless, we believe that these alternative regimes should be retained at present. As a practical matter, they are so deeply embedded in the system that any effort to require uniformity of business forms would be exceedingly disruptive and require elaborate transition rules. In addition, certain of the passive conduit regimes (RICs, REITs, and REMICs) are mechanical devices for permitting risk pooling and portfolio diversification. As such they should be retained as part of any system. Finally, to the extent partnerships are viewed as permitting parties to tailor their economic arrangements, with the tax consequences merely reflecting those arrangements, their continued availability (at least in certain circumstances) is warranted.

Recommendation 11: Stock Sales

> Shareholders will be taxed on sales of their stock, as under current law.

Discussion: By increasing share basis, DRIP dividends prevent tax on that portion of the appreciation in stock value attributable to previously taxed income that the corporation has chosen to retain rather than distribute. The capital loss limitation will remain as under current law.[11]

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[11] Some commentators have suggested that a rule disallowing losses to the extent of basis attributable to DRIP dividends may be necessary to prevent certain abuses. We have rejected this approach in favor of the more general anti-abuse rule described below as Recommendation 19.

Recommendation 12: Corporate Shareholders

> Corporate shareholders will no longer be entitled to a deduction for dividends received. Excludable dividends received by a corporation will increase the recipient corporation's ATI and will, therefore, remain excludable when distributed by the recipient corporation.

Discussion: We recommend eliminating the dividends received deduction, because it is no longer needed to reduce the multiple levels of corporate tax that can be imposed under current law. To the extent that earnings have been taxed to a corporation, there will be ATI to support dividends paid to corporate shareholders. The corporate shareholders will exclude the dividends from their income and will increase their own ATI by the amount of excludable dividends received. To the extent that the distribution is in excess of ATI, the corporate shareholders will reduce their bases, which is consistent with the general treatment of preferences under the ATI system.

Recommendation 13: Shareholder AMT

> The alternative minimum tax will be retained, but excludable dividends are not an AMT adjustment or preference.

Recommendation 14: Accumulated Earnings Tax

> The accumulated earnings tax will be repealed, because it is of diminished importance in a system that does not tax dividends.

Recommendation 15: Personal Holding Companies

> The personal holding company rules will be retained.

Discussion: While in general corporate tax rates are higher than individual tax rates and, therefore, there is no tax benefit to incorporation, graduated rates remain available to corporations. To the extent that the graduated rates are lower than the individual rates applicable to a specific taxpayer, an integrated tax system still presents the opportunity to use the corporate form to shelter personal income. Indeed, repeal of what amounts to a toll charge on distributions of that income may exacerbate the problem. Thus, the personal holding company rules will be retained.[12]

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[12] Because the determination of whether a corporation is a personal holding company is based on the corporation's gross income, dividends received under our recommendation will not affect whether a corporation is considered a personal holding company.

Recommendation 16: Shareholder Level Debt

Section 246A will not be extended to cover excludable dividends and is therefore repealed, and section 265 will not be extended to the purchase of corporate stock. Section 163(d) will continue to apply to individual shareholders.

Discussion: The decision not to extend sections 246A and 265 is consistent with our decision not to recommend modifications to the rules governing debt, and our policy bias against rules that are complex and difficult to administer.

Section 163(d) limits individual interest deductions to net investment income. Because dividends are excludable, dividends will never result in investment income, so interest on debt used to purchase stock will be deductible only to the extent of other investment income. This is consistent with the purpose of section 163(d), to preclude the use of interest deductions to shelter personal expenses.

Recommendation 17: Limitations on Dividend Exclusion

Rules similar to those in section 246(c) will apply to all shareholders that receive dividends (including DRIP dividends). Section 1059 will be repealed.

Discussion: We recommend a section 246(c)-type rule to prevent dividend stripping. Without such a rule, tax-exempt shareholders could sell their stock to taxable shareholders immediately before a dividend is paid. The taxable shareholders would receive the excludable dividend and immediately sell the stock for a loss. This is the same problem faced under current law with the dividends received deduction, except that many more shareholders could take advantage of dividend stripping under the ATI system. If the shareholder does not meet the holding period requirements, the shareholder also will be denied an increase in basis if a DRIP dividend is declared. Section 246(c) must be extended to DRIP dividends to prevent tax arbitrage through the combination of a DRIP dividend (causing a basis step-up), an actual cash distribution in excess of ATI (reducing basis by the amount of the step-up), and a sale of the stock at a loss.

Retaining section 1059 would prevent payment of excludable dividends of pre-acquisition earnings followed by sale of the stock for a loss. We recommend repealing section 1059, however, because section 246(c), other elements of current law, and our general anti-abuse rule should adequately police this problem.

If the current rules prove inadequate to prevent dividend stripping in particular cases (e.g., where the selling shareholder is a foreign person seeking to avoid U.S. withholding tax or where the corporation is privately held) and those cases cause significant distortions, we will consider additional rules.

Recommendation 18: Section 1014

> Section 1014 generally will continue to apply to stock held at death. Nevertheless, for decedents who owned at least five percent of the corporation's equity on the date of death, the amount of the section 1014 basis step-up is reduced (but not below zero) by the decedent's pro rata share of any increase in the corporation's undistributed ATI while the decedent owned the stock (as determined on the close of the taxable years that include the date of acquisition and the date of death).

Discussion: This recommendation prevents heirs from receiving the double benefit of a basis step up and excludable dividends, which would result in a capital loss (or reduced capital gain) when the heirs sell the stock. The capital loss would effectively offset corporate tax paid prior to death, which would be an unwarranted extension of section 1014. We considered prohibiting heirs from claiming capital losses on inherited stock for several years after the date of death, but that alternative would deny heirs any tax benefit for post-death economic losses. We also considered treating dividends received by heirs as returns of capital for several years after the date of death, but that alternative was similarly arbitrary. Our recommendation requires significant shareholders to ascertain the corporation's ATI in the year they acquired a five percent interest in the corporation and forces the estate to ascertain the corporation's ATI in the year of death, but it retains the benefit of section 1014. If the heirs desire a full basis step-up, the corporation can declare a DRIP.

Recommendation 19: General Anti-abuse Rule

> If a corporation creates multiple classes of stock or engages in a transaction (or series of transactions), a principal purpose or effect of which is to allocate dividend distributions to taxable shareholders and parallel return of capital distributions to tax-exempt shareholders (including foreign shareholders and shareholders with substantial NOLs), the Commissioner may treat all such distributions as having been made pro rata out of the corporation's ATI and, to the extent such distributions exceed ATI, as returns of capital. The Commissioner may impose a surrogate tax at the maximum shareholder rate (currently 34 percent) on the corporation or its successors, or, in the absence of sufficient corporate assets, on significant shareholders as transferees.

Discussion: Neither the section 246(c)-type rules described above nor other specific rules may be sufficient to address the potential for tax-motivated transactions. Our general anti-abuse rule effectively codifies application of the step transaction and substance-over-form doctrines to streaming transactions and provides additional protection. By providing for collection at the corporate level of a surrogate tax at the maximum shareholder tax rate, the rule deters schemes that purport to generate a significant portion of their return by manipulating the integration rules. The surrogate tax applies to the incremental return of capital distribution that the Commissioner allocates to taxable shareholders.

Because corporations may seek to engage in tax-motivated transactions as part of a liquidation, the rule assigns transferee liability for the surrogate tax to successors and significant shareholders (i.e., those that hold at least five percent of the corporation's equity at the time of the abusive transaction), including tax-exempt shareholders.

Recommendation 20: "Trafficking" in ATI

Section 382-type rules will not apply to limit the use of ATI following an ownership change.

Discussion: To the extent that section 269 prevents tax-motivated acquisitions, it will continue to apply. Should ATI-motivated acquisitions become a problem, a section 382-type rule can be added at that time.

Recommendation 21: Foreign Shareholders

(a) Integration benefits will not extend to foreign shareholders by statute. Thus, nonresident aliens and foreign corporations will continue to be subject to withholding tax on dividends. In addition, foreign corporations will continue to be subject to the branch profits tax. Integration benefits may, however, be granted to foreign shareholders by treaty.

(b) DRIP dividends will generally have no tax consequences to foreign shareholders. A DRIP dividend will not increase the bases of foreign shareholders' stock, but will reduce the corporation's ATI.

(c) Corporations will maintain an account of DRIP dividends paid (the deemed dividend account). Distributions in excess of ATI will be considered made out of this account. To the extent distributions are out of the deemed dividend account, they will be considered dividends for withholding tax purposes (regardless of whether the foreign shareholder receiving the distributions was a shareholder at the time the DRIP dividend was declared). Distributions to foreign shareholders out of the deemed dividend account will not reduce stock basis for foreign shareholders.

(d) A distribution to a foreign shareholder will reduce corporate ATI. Distributions (to any shareholder) in excess of ATI will reduce the deemed dividend account.

Discussion: We would like to extend integration benefits to foreign shareholders on a reciprocal basis with other nations. Nevertheless, in contrast to our recommendation on foreign taxes, we recommend that integration treatment be provided to foreign shareholders only by treaty, for two principal reasons. First, unilaterally extending the benefits of integration to foreign shareholders by statute may not achieve the intended purpose, because the tax policies of a shareholder's country of residence will ultimately determine the shareholder's total tax burden. Second, addressing the tax treatment of nonresidents through the treaty process is generally consistent with international norms concerning source-country taxing rights. Other countries, in certain cases, have extended integration benefits to nonresidents through bilateral income tax treaties. We are continuing to study foreign tax issues relating to integration as part of our International Tax Study.

Under the recommended system, DRIP dividends will not be treated as dividends to foreign shareholders, because it would be administratively difficult and arguably unfair to impose withholding tax where no cash or other property is actually distributed to shareholders. We considered but rejected other methods of addressing this problem. One alternative (modeled after the taxation of original issue discount accruing to foreign persons under section 871(a)(1)(C)) would be to permit a basis increase for stock held by foreign shareholders and to collect a deferred withholding tax at the time the foreign shareholder either sells his stock or receives distributions from the corporation. We rejected this alternative in part because of potential administrative difficulties in collecting withholding tax at the time of sale and because imposing that tax arguably would contravene the general U.S. policy of exempting foreign shareholders from tax on capital gains.

A foreign shareholder will be eligible for the benefits of DRIP dividends if the shareholder qualifies for integration benefits by treaty. Additional rules will be necessary to implement the general exclusion of foreign shareholders from DRIPs, such as rules governing basis adjustments in connection with the transfer of stock by a foreign person to a U.S. person in a nonrecognition exchange.

Recommendation 22: Compliance and Administration

(a) Corporations will be required to keep ATI accounts and deemed dividend accounts and will report the balance of those accounts to the IRS annually on their income tax returns. All information necessary to keep the accounts should be available to corporations in the ordinary course of preparing their income tax returns. Corporations also will be required to include additional information on Forms 1099. Revised Forms 1099 will indicate the amounts by which actual or deemed distributions are excludable, reduce basis, or increase basis.

(b) Shareholders will keep track of increases in basis as well as decreases in basis. Each shareholder will receive a revised Form 1099 to assist with this record-keeping burden.

Discussion: Minimizing recordkeeping was a significant goal in designing our integration system. Although shareholders will now have to track basis increases as well as basis reductions, this additional recordkeeping requirement should not be overly burdensome because it is augmented by information reporting. Recordkeeping at the corporate level should not be significantly increased.

Recommendation 23: Transition Rules

(a) In General: The ATI system will be effective for a corporation in its first taxable year beginning after the year of enactment.

(b) Dividend Received Deduction: During their first five taxable years beginning after the date of enactment, corporations may elect to continue reporting their E&P to their shareholders. Corporate shareholders may elect, for each class of stock in a corporation that reports E&P, to treat all distributions out of E&P as taxable dividends and claim a dividends received deduction, as under current law. The ATI regime would continue to apply for all other purposes to electing corporations and their non-electing shareholders. Neither pre-enactment nor post-enactment E&P will affect the treatment of distributions by corporations that do not elect to report E&P.

Discussion: The *Treasury Integration Report* recommended a phase-in period for its prototypes. For several reasons, we are now recommending an immediate effective date. First, the substantial benefits that will flow from integration can be realized more quickly through an immediate effective date. We believe that these benefits outweigh the potential adverse impact of short-term disruptions in the market. Second, an immediate effective date minimizes distortions in taxpayer behavior that might otherwise occur during a five year transition period. Finally, we believe that an immediate effective date minimizes complexity and taxpayer burdens. Retention of taxable dividends during a phase-in period would require a complex set of interim rules, in effect requiring a complete and separate integration system during the phase-in. Based on these reasons, we believe that an immediate effective date is warranted.

We recognize that the value of certain stocks may be dependent on the dividends received deduction. We therefore recommend a special rule to phase out the dividends received deduction in a manner intended to reduce the volatility in the value of stock held by corporations.

REVENUE COST

	Fiscal Years					
	1993	1994	1995	1996	1997	1993-97
Cost (billions of dollars)	17	31	33	34	35	150

Department of the Treasury
Washington, D.C. 20220

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AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
December 14, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $12,275 million of 13-week bills to be issued December 17, 1992 and to mature March 18, 1993 were accepted today (CUSIP: 912794B52).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.26%	3.33%	99.176
High	3.27%	3.34%	99.173
Average	3.26%	3.33%	99.176

$3,535,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 21%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	28,050	28,050
New York	42,348,385	11,049,605
Philadelphia	12,710	12,710
Cleveland	43,195	43,195
Richmond	38,155	38,155
Atlanta	19,900	18,110
Chicago	1,249,440	70,900
St. Louis	16,320	16,320
Minneapolis	13,390	10,385
Kansas City	31,320	31,320
Dallas	17,585	17,585
San Francisco	1,092,080	267,130
Treasury	671,845	671,845
TOTALS	$45,582,375	$12,275,310
Type		
Competitive	$40,535,140	$7,228,075
Noncompetitive	1,271,555	1,271,555
Subtotal, Public	$41,806,695	$8,499,630
Federal Reserve	2,578,080	2,578,080
Foreign Official Institutions	1,197,600	1,197,600
TOTALS	$45,582,375	$12,275,310

NB-2099

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
December 14, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $12,231 million of 26-week bills to be issued December 17, 1992 and to mature June 17, 1993 were accepted today (CUSIP: 912794D50).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.41%	3.52%	98.276
High	3.43%	3.54%	98.266
Average	3.43%	3.54%	98.266

Tenders at the high discount rate were allotted 63%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	25,535	25,535
New York	31,420,095	11,020,595
Philadelphia	8,310	8,310
Cleveland	27,450	27,450
Richmond	39,335	33,785
Atlanta	29,665	29,295
Chicago	1,448,970	168,495
St. Louis	11,740	11,740
Minneapolis	8,625	8,625
Kansas City	26,595	26,595
Dallas	14,685	14,685
San Francisco	993,345	396,995
Treasury	459,335	459,335
TOTALS	$34,513,685	$12,231,440
Type		
Competitive	$29,744,140	$7,461,895
Noncompetitive	825,545	825,545
Subtotal, Public	$30,569,685	$8,287,440
Federal Reserve	2,800,000	2,800,000
Foreign Official Institutions	1,144,000	1,144,000
TOTALS	$34,513,685	$12,231,440

NB-2100

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

LS 17/200/1410

DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
December 15, 1992

CONTACT: Scott Dykema
202-622-2960

**ENTERPRISE FOR THE AMERICAS INITIATIVE
DEBT REDUCTION AGREEMENTS SIGNED**

The United States, in another move to implement the Enterprise for the Americas Initiative (EAI), signed agreements today with Chile, Colombia, El Salvador, and Uruguay to reduce bilateral debt owed under food and foreign assistance lending programs.

Treasury Secretary Nicholas F. Brady said: "These agreements mark an important step forward in U.S. relations with Latin America and the Caribbean. They demonstrate the U.S. commitment to strengthening ties through economic growth in the region as well as here at home."

The debt reduction element of the EAI is intended to support efforts by Latin American and Caribbean countries to undertake broad macroeconomic and structural reforms, liberalize their investment regimes, and reach agreements with their commercial banks where appropriate. Each of the countries with which agreements were concluded today met eligibility criteria designed to ensure strong commitments to such economic reform.

The action taken today had the following affects on the debt owed to the United States by these four countries.

- Chile's foreign assistance debt to the United States was reduced by 10% from approximately $147 million to approximately $132 million.
- Colombia's foreign assistance debt to the United States was reduced by 10% from approximately $310.2 million to approximately $279.2 million.
- El Salvador's food assistance debt was reduced by 80% from $335.5 million to $67.1 million, and foreign assistance debt was reduced by 70% from approximately $279.3 million to approximately $83.8 million.
- Uruguay's food assistance debt was reduced by 40% from $996,000 to $598,000, and foreign assistance debt was reduced by 10% from approximately $33.4 million to approximately $30.1 million.

NB-2101

In addition to reducing the stock of debt, the United States expects to enter into Americas Framework Agreements with each government. Such agreements would allow interest payments on the remaining debt to be paid in local currency to support child development and/or environmental projects in each country.

Provided the United States enters into such agreements: approximately $17.25 million in local currency would be generated in Chile; approximately $41.6 million in local currency would be generated in Colombia; the local currency equivalent of approximately $41.2 million would be generated in El Salvador; and approximately $6.2 million would be generated in local currency in Uruguay.

Debt reduction is an important tool for encouraging countries in Latin America and the Caribbean to sustain efforts to reform their economies. By easing the burden of debt in return for sound economic management, the United States can help countries attract new investment capital and make the rewards of reform more immediate.

These agreements were authorized by Congress in Title VI of the Agricultural Trade Development and Assistance Act of 1954, as amended, and Part IV of the Foreign Assistance Act of 1961, as amended. Funding was provided in the foreign operations appropriations act for fiscal year 1993 ($50 million for AID debt reduction) and the agricultural appropriations act for fiscal year 1993 ($40 million for P.L. 480 debt reduction) to offset the cost of reducing debt.

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TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
December 15, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $24,800 million, to be issued December 24, 1992. This offering will provide about $2,900 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $21,906 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, December 21, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91-day bills (to maturity date) for approximately $12,400 million, representing an additional amount of bills dated September 24, 1992 and to mature March 25, 1993 (CUSIP No. 912794 B6 0), currently outstanding in the amount of $10,276 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $12,400 million, to be dated December 24, 1992 and to mature June 24, 1993 (CUSIP No. 912794 D6 8).

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 24, 1992. 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 $1,253 million as agents for foreign and international monetary authorities, and $4,500 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 5176-1 (for 13-week series) or Form PD 5176-2 (for 26-week series).

NB-2102

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. 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. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. Adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76 as applicable, 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.

4/17/92

TREASURY NEWS

Department of the Treasury | Washington, D.C. | Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
December 16, 1992

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES TOTALING $26,750 MILLION

The Treasury will auction $15,500 million of 2-year notes and $11,250 million of 5-year notes to refund $20,954 million of securities maturing December 31, 1992, and to raise about $5,800 million new cash. The $20,954 million of maturing securities are those held by the public, including $1,331 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

Both the 2-year and 5-year note auctions will be conducted in the single-price auction format. All competitive and non-competitive awards will be at the highest yield of accepted competitive tenders.

The $26,750 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.

In addition to the public holdings, Federal Reserve Banks, for their own accounts, hold $1,570 million of the maturing securities that may be refunded by issuing additional amounts of the new securities.

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

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Attachment

NB-2103

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC

OF 2-YEAR AND 5-YEAR NOTES TO BE ISSUED DECEMBER 31, 1992

December 16, 1992

Amount Offered to the Public ...	$15,500 million	$11,250 million
Description of Security:		
Term and type of security	2-year notes	5-year notes
Series and CUSIP designation ...	Series AH-1994 (CUSIP No. 912827 H9 6)	Series U-1997 (CUSIP No. 912827 J2 9)
Maturity date	December 31, 1994	December 31, 1997
Interest rate	To be determined based on the highest accepted bid	To be determined based on the highest accepted bid
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
Terms of Sale:		
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 up to $5,000,000	Accepted in full up to $5,000,000
Accrued interest payable by investor	None	None
Key Dates:		
Receipt of tenders	Tuesday, December 22, 1992	Wednesday, December 23, 1992
a) noncompetitive	prior to 12:00 noon, EST	prior to 12:00 noon, EST
b) competitive	prior to 1:00 p.m., EST	prior to 1:00 p.m., EST
Settlement (final payment due from institutions):		
a) funds immediately available to the Treasury ...	Thursday, December 31, 1992	Thursday, December 31, 1992
b) readily-collectible check ...	Tuesday, December 29, 1992	Tuesday, December 29, 1992

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

EMBARGOED UNTIL DELIVERY
TEXT PREPARED FOR DELIVERY
December 17, 1992

Contact: Rich Myers
(202) 622-2930

SECRETARY NICHOLAS F. BRADY
KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY
THURSDAY, DECEMBER 17, 1992
BOSTON, MASSACHUSETTS

Thank you, Dean Carnesale. It is a great pleasure to be here at the Kennedy School today. The topic for discussion -- reform of the financial system in the wake of the historic market meltdown in October 1987 -- is one on which Bob Glauber, David Mullins and I have worked closely together for almost 5 years, starting with the Presidential Task Force on Market Mechanisms.

In the months following the '87 Crash, the Task Force proposed a series of specific steps to prevent similar calamities in the future. Now, with the passage of the CFTC Reauthorization Act in October, 1992, each of these steps has largely been enacted. So today I want to take a few minutes to describe what I believe are some of the most important lessons we have learned in the five years since Black Monday. I would also like to highlight a few areas that deserve additional work in the future.

Perhaps the single most important lesson to be learned from the Crash of '87 is that the crazy quilt of exchanges, trading systems, and exotic instruments that make up the modern financial system is in reality "one market." This lesson is reinforced almost daily, as new instruments and trading strategies broaden and tighten the complex web of market linkages. But it was the failure of the markets for stocks, stock options, and stock index futures to perform as "one market" that contributed to the violence of the '87 Crash, and brought the financial system near to a breakdown.

Of course, the '87 Crash was triggered by a number of specific events. Some of these events were external to the market, such as the Federal Government's decision to abandon Gramm-Rudman discipline in the midst of a budget stalemate. And once the Crash was ignited, there were several factors that compounded its severity. These include: the market's overvaluation, the "herd mentality" of institutional investors, and the inadequacy of clearance and settlement systems. And perhaps most important, technology allowed transaction volume to outdistance the processing capacity of back-office systems and human minds.

NB-2104

But, as Bob Glauber suggested this morning, what made the Crash truly remarkable was the stripping of the gears in the mechanisms linking the equity and futures markets. This being the case, the goal for policymakers both then and now is clear. Rather than seek artificially to restrict one or another area of what is "one market," we need to create a regulatory and technical environment that keeps the gears meshing so the system doesn't spin out of control.

Although it was greeted with deep skepticism just five years ago, the revelation that there is "one market" has now become so widely accepted as to seem almost a cliché. Still, however, the revolutionary implications of the "one market" concept are being resisted by many policymakers and market participants alike. For as technology continues to drive markets together, today's petting zoo of different financial institutions -- each hobbled and blinkered in its separate cage -- will make less and less sense. Institutions participating in a single market should all be free to compete with each other on a level field across the entire market. Looked at in this way, the "one market" lesson of the '87 Crash is simply the logical beginning of the Treasury Department's long effort to end the legally mandated fragmentation of the financial system. It is high time to remove artificial regulatory barriers, such as those separating banking, securities and insurance.

Having said all this, it is probably worth pointing out that some observers of the '87 Crash have placed the blame on financial futures and program trading. Whatever the arguments may be, the volume of trading in financial futures and other derivatives has grown rapidly, and the instruments and strategies have become still more complex. However, I would not dispute for a moment that this growth trend has contributed significantly to market liquidity in general, and has provided valuable opportunities to hedge underlying risks. Any attempt to outlaw such instruments or to regulate them to a point where they cease to serve a practical economic purpose would be a grave mistake.

But the world cannot be hedged. Our financial system has not eliminated risk. That is to say, futures and other derivatives may bring clear benefits, but they also introduce complex forms of risk to the system that may not be fully understood and accounted for. The '87 Crash provided a clear example of the illusion of liquidity. It goes without saying that this illusion could reassert itself -- perhaps with greater consequences -- in today's larger and more complex markets.

Instead of trying to limit the use of financial futures, we need to find better ways to integrate them so that they do not tail-wag or destabilize the system. One way to do that, of course, is to unite the regulators of both the equity and the derivative markets into a single financial supervisor with responsibility for the entire market in financial risk. We proposed exactly that in 1988, and while Congress only saw fit to take partial steps in this direction, unified regulation must remain the goal. It is simple common sense that where there is "one market" there should be one regulator. The turf fights of the SEC and CFTC will not end until the overlapping responsibilities of the two agencies are combined in one form or another.

This is not to say that the regulatory agencies are acting entirely on their own. The plain fact is that struggles to preserve and expand regulatory influence are an extension of disputes within Congress. The structure of Congressional committee jurisdiction over financial issues is artificial and outdated. And it bears disproportionate responsibility for creating an environment in which turf has as much weight as truth in the evolution of the laws that govern our markets.

And as for program trading, markets are quick learners. Market participants were at one time secure in their belief that portfolio insurance gave them the ability at any time to shed risk. But after Black Monday, the lesson that liquidity may become limited has now been learned by heart. While it may be possible to get one camel through the eye of a needle, a herd of camels simply won't fit.

As a result, in the years since 1987 portfolio insurance has withered on the vine. This has come to pass without intervention by the ham hand of government, as firms recognized that this much-ballyhooed product simply does not provide bulletproof protection. By allowing the market to formulate its own solution, we avoided the uncertain application of new regulatory restrictions that could simply drive business abroad, directly reducing the competitiveness of the United States.

Having talked briefly about some of the lessons of '87, I want to discuss what we have done about what we've learned. The five key recommendations of the Presidential Task Force on Market Mechanisms have now largely become a reality. These recommendations were: coordinated circuit breakers; harmonized margin requirements; linked clearance and settlement systems; large trader reporting; and progress toward unified regulation of intermarket mechanisms.

Taken together, these important reforms recognize the "one market" reality and will help protect the financial system against the recurrence of major disruptions like October '87. But they are not an exhaustive list of improvements. The last five years have witnessed a wide range of advances. These include: increased trading capacity; cross-margining; and enhanced capital requirements for specialists. Moreover, the domestic and international regulators and exchanges have improved lines of communication and coordination among themselves. It is particularly satisfying that many of these reforms are examples of the private sector responding to problems by taking corrective action itself. This is clearly the best approach.

Now, let me turn to three areas that I believe need to be explored more closely in the future. These areas are: first, the dramatic change that technology is bringing to the domestic and global markets; second, the need to unify and coordinate our domestic and international regulatory framework; and third, the need to ensure that the over-the-counter derivatives markets are appropriately managed.

Technology and Transformation

First, expanding market integration will bring continuing and radical change to the financial exchanges, both at home and abroad. Technology is already making the bricks and mortar of the organized exchanges less and less important. Institutional demand for cheaper and more efficient ways to transact business is making screen-based trading an increasingly powerful alternative to more traditional methods. In the not too distant future, I expect that many financial instruments will be traded on a much smaller number of larger, diversified exchanges. Trading will to a much larger extent take place electronically. Today's pits and trading floors may seem as quaint and dated as the slide rule.

At the same time, leadership in communication and information technologies is the key to U.S. competitiveness in international finance. While the U.S. market continues to be the envy of the world in efficiency, liquidity and fairness, new technologies are rapidly redefining the competitive landscape. The futures exchanges have developed the Globex, Access, and Project A trading systems. The securities exchanges are making progress on 24-hour trading. The NASD has the PORTAL system, and has proposed an early trading session.

These steps all exemplify the capacity of U.S. markets to stay ahead of the global curve through innovation and technology. The strengths of the open outcry and auction market systems will continue to help preserve U.S. leadership. But we can never afford to become complacent about the tried and true in the face of new challenges and opportunities.

At the same time, we cannot build the Taj Mahal of trading systems on a weak foundation. The capacity of our clearance and settlement systems to transfer funds safely and accurately across markets must match trading speed and volume. After all, this was the single most vulnerable point in the system in 1987, and it brought us to the brink of collapse. Although much has been accomplished since then, the job is far from complete. An effective clearance and settlement system is absolutely essential to the long-term stability and efficiency of U.S. and international financial markets.

We expect that the 1990 Market Reform Act will speed improvements in this area. The Act calls for the establishment of coordinated clearance and settlement facilities for transactions in securities, securities options, futures, and commodity options. To this end, the SEC has created a Market Transactions Advisory Committee to advise on what legal steps should be taken to enhance clearance and settlement. The Committee has made substantial progress, and we anticipate that its final report will be a valuable resource.

Unified and Coordinated Regulation

Second, I continue to believe that the single most important step Congress can take to reduce both the likelihood and severity of major market disruptions is to unify regulation of equity-related products. Congress took a major step forward in providing unified margin authority to the Federal Reserve in the recent CFTC reauthorization bill. We understand that the Fed intends to conduct an intensive study of the issues raised by this new authority, and we are confident that the Fed will not delegate responsibility until this study is complete.

But this unified margin authority is only a first step. Every other country with major trading in stocks and stock index futures has a single regulator to make sure its financial system as a whole is protected. Japan, the United Kingdom, and France -- together with the United States -- account for 90 percent of global futures trading. But each of these other countries recognizes the "one market" reality, and assures that regulation of stocks, options, and futures is coordinated by a single regulator. These countries have faced the music -- but we have not. Here in the United States, by reason of history and inertia, regulation is divided.

In 1990, the Treasury Department proposed one way to unify regulation. That proposal was rejected because of agency and committee turf fights that impeded serious discussion. Like feudal barons of another era, Congressional leaders continue to joust over the boundaries of their political fiefdoms -- seemingly unaware that the world has changed around them.

But consolidation of legislative jurisdiction is as important as consolidation of regulatory jurisdiction. Perhaps the answer is to form a joint committee in Congress to handle these issues in the future. If Congress is serious about institutional reform, this idea should be at the very top of its list. That way, a regulatory reform proposal may be developed that is less threatening to vested interests, and may have a better chance of passage.

In making this proposal, believe me when I say that I am painfully aware of how difficult it would be to implement such a plan. We struggled to achieve regulatory consolidation in 1990, and we tried to restructure banking regulation in 1991. Both of these efforts died in Congress. But we simply cannot afford continued parochialism and paralysis when it comes to financial reform. And I would note that just this week, the Chairman of the Chicago Merc repeated his call for the creation of a single "superagency" to regulate all financial markets. This is a powerful call to action, coming from an industry that heretofore thought otherwise.

But even as we strive to unify our domestic regulation, we also need to devote serious efforts to harmonizing regulation of global securities markets. After all, almost two-thirds of global equity market capitalization now lies outside of the United States. International competition requires that we view interrelated domestic markets in a global context, and speak with a more unified voice to our foreign counterparts.

Over-the-Counter Derivatives

Finally, the markets for over-the-counter derivatives -- such as interest rate swaps, currency swaps, and related instruments -- have grown exponentially. For example, the notional principal amount of outstanding interest rate swaps has grown from about $3 billion a decade ago to over $3 trillion today. This rapid rate of growth -- and the relative complexity of the instruments -- has created wide knowledge gaps between regulators and the regulated, and even between senior management and traders.

In my judgment there is work to do, but a balanced approach is required. On the one hand, there is a danger that regulators will overreact. The government's initial role should be limited to ensuring that the derivatives industry has its own house in order. Regulators should understand how these new products and markets work, and confirm that systems are in place to protect the integrity of the financial system.

On the other hand, the over-the-counter derivatives markets do present real and substantial risks. Derivative instruments have made it possible for market participants to take positions that create linkages between different market segments. At the same time, there has been a clear trend toward concentration of credit risk in a few highly rated firms. Both of these developments raise concerns about the liquidity of the over-the-counter markets in times of greatest need.

We saw the possibilities in September when the European currency crisis unfolded. The G-10, at my request, and the Fed are conducting studies of this event. While their analyses are not complete, some anecdotal evidence suggests that market risk management programs at times proved inadequate as rates varied widely from historic norms. And liquidity tightened in some markets. If this sounds familiar -- it should. Similar problems arose in 1987. I recognize that settlement problems in the over-the-counter derivatives markets have been rare so far. But we should maintain a watchful eye.

Let me summarize by emphasizing that we need to adapt our laws and regulations to today's realities in the marketplace -- to changes that have already occurred. From the U.S. point of view, our laws must operate in harmony with the markets as they have become or we will not maintain our preeminent position in an increasingly competitive world. And the financial industry is one where things change so quickly that, should we fall behind, it will be very, very difficult to catch up.

The good news is that we live in a dynamic, democratic society. In the end, the markets, regulators, and Congress responded in a remarkably balanced fashion to the Crash of '87. It is my strong conviction now that we must move boldly if we are to meet the new challenges our financial markets face as we enter the next century.

Thank you.

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TREASURY NEWS
Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
December 18, 1992

CONTACT: Robin Benty
202-622-2930

UNITED STATES AND THE NETHERLANDS SIGN INCOME TAX TREATY

The Treasury Department announced today that a new income tax Convention with the Netherlands was signed in Washington on December 18, 1992. The Convention was signed for the United States by Assistant Secretary of State Eugene McAllister, and for the Netherlands by Ambassador Hans Meesman. Notes also were exchanged, which, among other things, gave effect to a memorandum of understanding interpreting a number of provisions of the new Convention. The new Convention will replace the existing Convention between the United States and the Netherlands, which was signed in 1948 and last amended in 1965. The new Convention will enter into force after ratification by both countries.

The new Convention generally follows the pattern of the U.S. and OECD Model Conventions, and of recent U.S. treaties with other developed countries. The withholding rates on investment income in the proposed Convention are generally the same as those in the present U.S.- Netherlands treaty. Anti-abuse rules, however, are provided for certain classes of investment income, including dividends paid by non-taxable conduit entities, such as U.S. RICs and REITs and their Dutch equivalents. The taxation of capital gains under the proposed Convention also is essentially the same as under the present Convention. The proposed Convention preserves the U.S. right to impose its branch tax on U.S. branches of Netherlands corporations, which is not preserved under the present treaty. Special rules are provided for the taxation of income from offshore mineral exploration activities. In other respects, the taxation of business income and various forms of personal services income under the proposed Convention substantially follows the pattern of the U.S. and OECD Models.

Like other recently concluded U.S. treaties, the new Convention contains limitation on benefits rules intended to prevent third-country residents from benefitting inappropriately from the Convention. The present Convention contains no such limitation on benefits rules, and has been subject to abuse. A major objective of the United States in negotiating the new Convention was to curtail such misuse of the present Convention. These rules in the proposed Convention are significant because they are considerably more detailed than those of any other U.S. treaty. These rules should provide clear guidelines and greater certainty to persons wishing to claim the benefits of the Convention. The new Convention is also significant because it recognizes the position of the Netherlands as a member of the European communities in determining when treaty benefits should be allowed.

The new Convention also addresses an abuse relating to the granting of U.S. treaty benefits to low-taxed third-country permanent establishments of Netherlands corporations that are exempt from tax in the Netherlands by operation of Dutch law. The Convention provides that if this issue has not been satisfactorily resolved under Dutch law by the time of Senate Foreign Relations Committee hearings on the Convention, a rule to do so will be promptly agreed between the United States and the Netherlands and will be incorporated into the Convention by means of a Protocol.

In addition to the standard rules for mutual agreement and exchange of information, the new Convention provides for the use of arbitration for the resolution of certain types of tax disputes. However, arbitration will not be used under the Convention until both Contracting States feel that the experience with arbitration in tax disputes under other agreements has been satisfactory, and agree, through the exchange of diplomatic notes, to institute the arbitration program.

The new Convention will be sent to the Senate for its advice and consent to ratify. The new Convention will enter into force thirty days after each State has notified the other that it has completed all of its ratification procedures, and will have effect with respect to taxes payable at source for payments made or credited on or after the first day of January following entry into force. In other cases it will take effect with respect to taxable years beginning on or after that date. Where the present Convention affords a more favorable result for a taxpayer than the new Convention, the taxpayer may elect to continue to apply the provisions of the present Convention, in its entirety, for one additional year.

Copies of the new Convention, along with the notes and Memorandum of Understanding, are available from the Office of Public Affairs, Treasury Department, Room 2315, Washington, D.C. 20220.

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TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

For Immediate Release December 21, 1992

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of November 1992.

As indicated in this table, U.S. reserve assets amounted to 72,231 million at the end of November 1992, down from 74,207 million in October 1992.

U.S. Reserve Assets
(in millions of dollars)

End of Month	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/3/	Foreign Currencies 4/	Reserve Position in IMF 2/
1992					
October	74,207	11,060	11,561	42,325	9,261
November	72,231	11,059	11,495	40,896	8,781

1/ Valued at $42.2222 per fine troy ounce.

2/ Beginning July 1974, the IMF adopted a technique for valuing the SDR based on weighted average of exchange rates for the currencies of selected member countries. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.

3/ Includes allocations of SDRs by the IMF plus transactions in SDRs.

4/ Valued at current market exchange rates.

NB-2106

SUBSIDIARY REQUIREMENT

STUDY

**DEPARTMENT
OF THE
TREASURY**

**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**

SECTION 215 SUBSIDIARY REQUIREMENT STUDY

EXECUTIVE SUMMARY

Pursuant to section 215 of the Foreign Bank Supervision Enhancement Act ("FBSEA"), the Secretary of the Treasury and the Board of Governors of the Federal Reserve System, in consultation with the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Attorney General, have conducted a study of "whether foreign banks should be required to conduct banking operations in the United States through subsidiaries rather than branches," taking into account a number of factors specified by the legislation. The conclusions of the study are summarized briefly below.

A subsidiary requirement applied to all foreign banking operations either across-the-board or for purposes of expanded powers would impose substantial economic and financial costs on the U.S. operations of foreign banks. In fact, a branch of a foreign bank is able to operate more efficiently than a separate subsidiary of a foreign bank, due to a number of factors: (1) the ability to deploy capital flexibly; (2) a lower cost of funding; (3) the ability to compete based on access to the worldwide capital base of its parent; (4) ability to engage in transactions with the home office without significant operational restrictions; and (5) lower transactions costs.

As of June 1992, 82 percent of all U.S. assets held by foreign banks are maintained in branches and agencies.[1] If the United States were to require that foreign banks conduct their U.S. operations in subsidiaries, the availability of credit in the United States market could be reduced, perhaps substantially. For example, the participation of foreign banks in lending syndicates, trade finance, and transactions in foreign exchange, swaps and other products would be restricted by the increase in costs and by their inability to access their worldwide capital base. Foreign countries might also retaliate against U.S. bank branches, perhaps by requiring that they establish a subsidiary or by otherwise restricting their activities.

One possible justification for an across-the-board subsidiary requirement is the belief that it safeguards financial stability. However, more appropriate and effective measures are available for purposes of protecting safety and soundness. These include the promotion of adequate supervisory standards worldwide and the right to prohibit access to the U.S. market by banks that are not adequately supervised. The FBSEA, as well as the minimum standards for consolidated supervision established by the Basle Committee on Banking Supervision, represent important steps in this direction. Importantly, both measures implicitly endorse foreign bank branches.

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[1] Foreign branches of U.S. banks also hold a majority (64 percent) of all foreign assets held by U.S. banks abroad.

For purposes of protecting safety and soundness, measures other than a subsidiary requirement also may be applied to branches of foreign banks experiencing financial difficulties. These include asset maintenance requirements and restrictions on transactions between a branch and the foreign bank's other offices that "wall-off" or "ring-fence" the activities of the branch from those of the troubled foreign bank without imposing the unnecessary costs and inefficiencies associated with a broader subsidiary requirement. In the past, these measures have successfully addressed problems arising in relation to branches of foreign banks experiencing financial difficulty without penalizing the activities of branches of healthy foreign banks.

Another possible justification for a subsidiary requirement was the belief that differences in capital and regulatory standards might place U.S. banks at a competitive disadvantage in their own market. In this regard, the guidelines established pursuant to section 214(b) of the FBSEA in the Report on Capital Equivalency provide assurances that foreign banks operating in the United States are subject to capital requirements equivalent to those imposed upon U.S. banking organizations such that U.S. banks are not placed at a competitive disadvantage in their own market with regard to capital standards. The joint annual updates on capital equivalency also provide the Federal Reserve Board and Treasury opportunity to ascertain that foreign banks are meeting capital and accounting standards equivalent to those required of U.S. banking organizations.

With regard to the other factors specified in section 215 of the FBSEA, which include considerations relating to deposit insurance, money laundering, tax, bankruptcy, and international trade, the agencies agree that none of these factors provides support for a subsidiary requirement.

After carefully examining all of the factors contained in the legislation, the Treasury and the Board would oppose a subsidiary requirement that would be applied to all foreign bank operations either across-the-board or for purposes of expanded powers. The Treasury and the Federal Reserve Board consistently have opposed a subsidiary requirement that would be applied to all foreign banking operations in the United States. The inter-agency review of regulatory developments reveals several significant changes since the introduction of the 1991 Administration proposal. The agencies, therefore, agree that the various factors to be considered do not justify a "roll-up" of foreign bank branches should expanded powers be permitted to U.S. banks.

Instead, subject to prudential considerations, the guiding policy for foreign bank operations should be the principle of investor choice. The right of a foreign bank to determine whether to establish a branch or a subsidiary is consistent with competitive equity, national treatment and equality of competitive opportunity. Foreign countries with banks that are provided national treatment and equality of competitive opportunity in the U.S. market should offer U.S. banks national treatment and competitive equity in their markets.

In the Uruguay Round negotiations, NAFTA discussions, and bilateral negotiations, U.S. officials have impressed upon other countries the importance of providing equality of competitive opportunity to U.S. banks and they will continue to do so. The Treasury and the Board recognize that it is important to assure that U.S. negotiators have the necessary tools to advance U.S. interests abroad. However, the agencies agree that a subsidiary requirement applied to all foreign banking operations either across-the-board or for purposes of expanded powers is not desirable even in this context.

I. INTRODUCTION

Operations of foreign banks have expanded in the U.S. market in recent years. Their share of U.S. banking assets has nearly doubled from 12 percent in December 1980 to 23 percent in June 1992.[2] The growth in foreign bank activities in the United States has added to the liquidity of the U.S. market while deepening the availability of credit to borrowers. For example, foreign bank operations have grown partially in response to the growth in foreign investment in and trade with the United States. Foreign banks have been especially active in wholesale activities, which include trade finance, commercial loan syndications, swaps and foreign exchange activities.

In the light of the expanding operations of foreign banks in the United States and the difficulties experienced with criminal activity and unsound practices at a small number of foreign banks over the past several years, a need was identified for legislation that would fill gaps in the supervisory and regulatory framework governing foreign bank operations in this country. To this end, the Foreign Bank Supervision Enhancement Act (FBSEA) was passed by Congress and signed into law by the President, as Title II of the Federal Deposit Insurance Corporation Improvement Act of 1991. The FBSEA established uniform federal standards for entry and expansion of foreign banks

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[2] Appendix A contains tables and charts, as well as a brief narrative, describing the growth in foreign bank operations in the United States.

in the United States, which broadly parallel the regulatory regime and standards applicable to U.S. banks.

In light of the growth in U.S. operations of foreign banks and in order to assure that U.S. and foreign banks are treated on an equivalent basis in the U.S. market, the FBSEA also mandated that the Department of the Treasury (Treasury) and the Board of Governors of the Federal Reserve System (Board) should conduct two studies. The first of these studies, the Report on Capital Equivalency, which was required by section 214(b) of the FBSEA, was submitted to Congress by the Treasury and the Board in June 1992.

This study, the Subsidiary Requirement Study, is required by section 215 of the FBSEA. Section 215 requires that the Secretary of the Treasury, jointly with the Board (hereafter collectively referred to as "the agencies") and in consultation with the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Attorney General conduct a study of "whether foreign banks should be required to conduct banking operations in the United States through subsidiaries rather than branches." In conducting the study, the legislation requires that the Secretary take into account the following factors:

(1) differences in accounting and regulatory practices abroad and the difficulty of assuring that the foreign bank meets United States capital and management standards and is adequately supervised;

(2) implications for the deposit insurance system;

(3) competitive equity considerations;

(4) national treatment of foreign financial institutions;

(5) the need to prohibit money laundering and illegal payments;

(6) safety and soundness considerations;

(7) implications for international negotiations for liberalized trade in financial services;

(8) the tax liability of foreign banks;

(9) whether the establishment of subsidiaries by foreign banks to operate in the United States should be required only if United States banks are authorized to engage in securities activities and interstate banking and branching; and

(10) differences in treatment of United States creditors under the bankruptcy and receivership laws.

The legislation also requires that by December 19, 1992, the Secretary transmit to the Committee on Banking, Housing and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives a report on the results of the study. Any additional or dissenting views of participating agencies shall be included in the report.

The full text of section 215 of the FBSEA is attached as Appendix B.

II. ASSESSMENT OF THE FACTORS TO BE CONSIDERED

Working groups comprised of staff from the agencies were formed to consider the factors identified in section 215 of the FBSEA and papers addressing these factors were drafted.[3] The

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[3] The factors relating to competitive equity, national treatment and new powers are addressed in one paper, as are the factors regarding accounting, regulatory and management practices and safety and soundness considerations.

factor papers, which address the following subjects, are attached as Appendices C, D and E.

APPENDIX C	*<u>REGULATORY IMPLICATIONS</u>*	*ACCOUNTING, REGULATORY AND MANAGEMENT PRACTICES* *SAFETY AND SOUNDNESS* *DEPOSIT INSURANCE SYSTEM*
APPENDIX D	*<u>NATIONAL TREATMENT/</u>* *<u>FINANCIAL SERVICES IMPLICATIONS</u>*	*COMPETITIVE EQUITY* *NATIONAL TREATMENT* *NEW POWERS* *INTERNATIONAL NEGOTIATIONS*
APPENDIX E	*<u>OTHER IMPORTANT IMPLICATIONS</u>*	*MONEY LAUNDERING AND ILLEGAL PAYMENTS* *TAX IMPLICATIONS* *BANKRUPTCY AND RECEIVERSHIP*

The findings and conclusions of the papers prepared by the inter-agency working groups are summarized below.

A. Regulatory Implications

This section summarizes the conclusions reached in the factor papers regarding the advantages and disadvantages of a subsidiary requirement when considered in the light of regulatory practices, safety and soundness considerations and implications regarding the deposit insurance fund. See Appendix C for the full text of the relevant factor papers.

1. Regulatory Practices and Safety and Soundness Considerations

a. Regulatory Practices

Regulatory practices in this context were considered to encompass considerations such as differences in accounting and regulatory practices abroad as well as assuring that the foreign bank meets United States capital and management standards and is adequately supervised. Regardless of whether an application has been filed for the establishment of a branch, agency or subsidiary, in evaluating applications, regulators consider, among other factors, capital, profitability, concentration of risk, liquidity and asset quality. Differing regulatory and accounting practices also are taken into account by federal banking supervisors and must be explained by the applicant. In this regard, all U.S. operations of foreign banks must maintain records and conduct operations in accordance with U.S. practices. Home country authorities are contacted routinely to obtain information that bears on the management, reputation and standing of a foreign bank filing an application to open a branch, agency or subsidiary. Although differences remain among supervisory practices, efforts to harmonize regulatory practices continue.

The agencies do not believe differences in regulatory practices warrant a subsidiary requirement, especially given significant regulatory developments in the United States and abroad. The FBSEA requires that foreign banks be subject to comprehensive supervision on a consolidated basis to be permitted entry into the U.S. market through a branch, agency or subsidiary bank. The statute and the implementing regulations adopted by the Board should provide ample supervisory authority with respect to direct U.S. offices of foreign banks. In addition, under section 214(b) of the FBSEA, foreign banks with U.S. branches are expected to meet capital standards "equivalent" to those required of U.S. banks. The establishment of minimum standards for consolidated supervision of international banking groups and their cross-border establishments by the Basle Committee on Banking Supervision ("Basle Committee") also represents an important step towards harmonization of regulatory standards.

b. Safety and Soundness Considerations

A subsidiary requirement for all foreign bank operations would require that the foreign bank conduct its U.S. operations in a separate legal entity. The actions of the subsidiary bank would not be attributed to the parent, which would be required neither to support the operations nor to meet the obligations of its subsidiary. The subsidiary's capital base would be segregated from that of its parent, and the ability of the subsidiary to transact business with its parent would be closely controlled. The subsidiary bank also would be subject to assessments for the deposit insurance fund. Finally, a subsidiary would be denied the benefits of being an integral part of a larger more diversified organization.

A parent could choose <u>(in extremis)</u> to allow its subsidiary to fail, although this could affect adversely the parent bank's reputation and its ability to obtain funding.

Conversely, a failure of the parent bank could cause difficulties for a subsidiary, including liquidity problems, to the extent that there is a market identification of the subsidiary with the parent bank. The strength of the parent, therefore, is a highly relevant consideration for supervisors in assessing the safety and soundness of a separately capitalized subsidiary.

The safety and soundness of a branch of a foreign bank is closely linked with that of its parent. However, bank supervisory authorities in some countries have taken steps to make foreign bank branches behave more like subsidiaries. These restrictions can have the effect of insulating the financial condition of the branch or agency from that of the rest of the organization in much the same manner as the incorporation of a separate subsidiary. Such restrictions have been applied by U.S. supervisors to address particular prudential concerns in problem cases. However, general application of such restrictions would have the effect of denying the foreign bank the economic benefits that accrue to the branch form of operation.

We do not believe that a subsidiary requirement is necessary to assure that foreign banks' direct banking operations in the United States are conducted in a safe and sound manner. Experience to date demonstrates that the U.S. banking operations of a foreign bank can function safely under either the branch or the subsidiary form of organization. The advantages or disadvantages of a branch or subsidiary primarily relate to operational differences and do not support a conclusion that one form is inherently more safe and sound than the other. Continuing convergence of supervisory standards, including the comprehensive supervision of banking organizations operating internationally, should enhance the ability of supervisors to monitor and enforce safety and soundness.

2. Deposit Insurance Considerations

U.S. bank subsidiaries of foreign banks must obtain FDIC insurance on the same basis as other U.S. banks. Section 214(a) of the FBSEA (as amended) prohibits foreign banks from establishing new insured ("retail deposit-taking") branches in the United States.[4] If foreign banks wish to engage in retail deposit-taking activities, they must establish a subsidiary and obtain FDIC insurance.

With the exception of a limited number of grandfathered branches, foreign bank branches and agencies do not accept insured deposits and, therefore, neither contribute to nor draw from the deposit insurance fund. Accordingly, the imposition of a subsidiary requirement would increase the assessment base, the contingent liabilities, and the potential exposure of the FDIC. The increased risk exposure of the FDIC could be heightened as a result of the enhanced ability of a foreign bank parent to withhold support from a separately incorporated subsidiary.

A subsidiary requirement would prompt many foreign banks to undertake actions that would permit them to avoid paying

[4] A total of 52 branches of "insured" foreign banks with $4.7 billion in non-IBF deposits were grandfathered from this provision.

deposit insurance assessments. For example, these actions might include moving U.S. business offshore, booking deposits in an International Banking Facility (IBF), or converting deposits into other instruments that would not be subject to deposit insurance. These actions could temper the size of the increase in the assessment base.

B. National Treatment/Financial Services Implication

This section summarizes the national treatment and competitive equity implications of a subsidiary requirement, applied either across-the-board or in connection with the liberalization of banking powers. This section also examines the impact of a subsidiary requirement on international negotiations for liberalized trade in financial services. See Appendix D for the full text of the working group papers addressing these issues.

1. Competitive Equity and National Treatment Considerations

Bank branches enjoy certain economic and financial benefits that are not available to subsidiaries, which include: (1) the ability to deploy capital flexibly; (2) a lower cost of funding; (3) the ability to compete based on access to the worldwide capital base of its parent; (4) freedom to engage in transactions with the parent without significant restriction; and (5) lower transactions costs. As of June 1992, branches and agencies of foreign banks together held slightly more than four-fifths (82 percent) of all assets held by foreign banks in the United States, while foreign branches of U.S. banks held 64 percent of all assets held abroad by U.S. banks. These figures demonstrate a general preference for the use of branches in comparison with subsidiaries.[5] In short, branch operations of foreign banks provide numerous economic and financial advantages to consumers and financial institutions in the United States and abroad.

Imposition of an "across-the-board" (unqualified) subsidiary requirement would necessitate a major restructuring of foreign banks' operations in the United States, which would reduce the depth, efficiency and competitiveness of the U.S. banking market. It could prompt foreign countries to retaliate, making it more difficult for U.S. banks to branch abroad. These countries might introduce a subsidiary requirement or review whether to permit U.S. banks to engage in activities that are prohibited in the U.S. market. Finally, countries that might otherwise consider dropping their own subsidiary requirement (e.g., Canada or Mexico) might reconsider if the United States were to adopt such a requirement.

An across-the-board subsidiary requirement would also be unnecessary under the minimum standards for consolidated supervision adopted by the Basle Committee, which has sought to strengthen supervision by stressing the primary responsibilities of the home country with respect to its foreign bank branches. Neither the Treasury nor the Board believes that such an unqualified subsidiary requirement is warranted.

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5 See Appendix A for further detail regarding the extent and form of foreign banks' operations in the United States and of U.S. banks' operations abroad.

The agencies also examined whether a subsidiary requirement should be imposed for banking operations of foreign banks in the United States if U.S. banking organizations are permitted to engage through separately incorporated subsidiaries in securities activities or interstate banking and branching. Under this type of approach, only those foreign banks that wished to avail themselves of the expanded powers would be required to restructure their branch operations into subsidiary form.

The Administration's 1991 financial modernization proposal, which ultimately was not adopted, was broadly along these lines.[6] Under this proposal, new powers would have been authorized to those U.S. financial services holding companies with "well-capitalized" banks. Foreign banks that wished to obtain expanded powers (which under the proposal included securities and insurance activities) would have been required to "roll-up" all existing branch and agency operations into one or more well-capitalized U.S. bank subsidiaries of a financial services holding company.

Significant banking developments have transpired since the Administration introduced its 1991 proposal. Several developments have strengthened the ability of regulators to supervise the direct offices of foreign banks in the United States. The adoption of the FBSEA has strengthened the regulators' authority to assure that untoward actions do not

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[6] The Financial Institutions Safety and Consumers Act of 1991 (FISCCA).

jeopardize the safety and soundness of the financial system.[7] The establishment of the minimum standards for consolidated supervision by the Basle Committee on Banking Supervision also represents an important step towards harmonization of supervisory efforts with regard to foreign bank branches.

In addition, the Report on Capital Equivalency, mandated by Congress in section 214(b) of the FBSEA, establishes guidelines that help assure that U.S. banks will not be placed at a competitive disadvantage in their own market. As a result, "roll-up" is no longer necessary on competitive equity grounds. The joint annual updates on capital equivalency also provide the Board and the Treasury opportunity to ascertain that foreign banks are meeting capital and accounting standards equivalent to those required of U.S. banks.

The United States has generally followed the principle of national treatment with respect to financial services. National treatment is based on the principle of nondiscrimination between domestic and foreign firms, or treatment that is "no less favorable than that accorded in like circumstances to domestic enterprises." The United States endorsed a de facto national treatment standard and "equality of competitive opportunity" in

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[7] FBSEA requires that the Board in consultation with Treasury, establish criteria for banks from countries that do not provide comprehensive supervision on a consolidated basis.

the International Banking Act of 1978.[8] This principle is embodied in the OECD Codes of Liberalization, the North American Free Trade Agreement (NAFTA), and current policies adopted in connection with the Uruguay Round of the GATT negotiations.

Consistent with this principle, the United States believes that, subject to any relevant prudential considerations, the guiding policy for foreign bank operations should be the principle of investor choice. The right of a foreign bank to determine whether to establish a branch or a subsidiary is consistent with competitive equity, national treatment and equality of competitive opportunity. The U.S. Government has pursued this policy in a wide range of fora, including the Uruguay Round, NAFTA, and bilateral negotiations. Nevertheless, some countries have continued to restrict the right of U.S. banks to branch in their markets.

Some have suggested that, following the adoption of reciprocal national treatment authority by many major U.S. trading partners, the U.S. Government also should be granted authority to apply a reciprocal national treatment standard.[9] With regard to

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[8] For a discussion of equality of competitive opportunity and the distinctions between de facto and de jure national treatment, see the 1979 Report to Congress on Foreign Government Treatment of U.S. Commercial Banking Organizations, pages 1-3 and 15-18.

[9] A country that provides reciprocal national treatment grants national treatment to banks from another country contingent upon that country providing national treatment to its banks. By January, 1993, when the EC Second Banking Directive is due to be implemented by member states, at least 18 of the 24 OECD countries (including the 12 EC member states) will possess some type of reciprocity powers.

establishment, this could mean that a subsidiary requirement could be imposed upon banks from countries that do not permit: (1) U.S. banks to branch; (2) U.S. bank branches the full benefits granted their own bank branches; and/or (3) national treatment and equality of competitive opportunity to U.S. banks and bank holding companies. This action could cause the affected country to provide national treatment and equality of competitive opportunity; alternatively, it could cause the country to retaliate and restrict further access by U.S. banks.

2. Financial Services Negotiations

A subsidiary requirement for all foreign banking operations in the United States could raise questions of interpretation with regard to Friendship, Commerce and Navigation (FCNS) Treaties and Bilateral Investment Treaties (BITs), the OECD Codes, and the U.S.-Canada Free Trade Agreement. However, under the NAFTA, a subsidiary requirement that applied to all other countries, while permissible, could impair the prospect for U.S. banks to achieve branching rights into Mexico and Canada at a future date. This could occur despite the arrangement for additional liberalization agreed in the NAFTA with respect to foreign bank branching.

Under a proposed Uruguay Round Services Agreement, a subsidiary requirement under U.S. law could require reservations to market access commitments of the United States and would be inconsistent with U.S. objectives in the Round. It also would be likely to affect adversely on-going negotiations with developed countries to lock-in existing branching rights of U.S. banks abroad. With respect to markets that do not permit branching, a targeted subsidiary requirement could tend to discourage further efforts to liberalize in these markets. It is also possible that the threat of a subsidiary requirement might serve as leverage for further liberalization.

C. Other Important Implications

This section addresses the implications of a subsidiary requirement when considered in the light of the need to prevent money laundering and illegal payments and considerations relating to tax and bankruptcy. See Appendix E for the full text of the papers addressing these issues.

1. Money Laundering Considerations

All foreign banks doing business in the United States, regardless of whether they are operating a branch or a subsidiary, are subject to the Bank Secrecy Act (BSA). The BSA sets forth the currency reporting and recordkeeping requirements for banks and other financial institutions. It has evolved into the major anti-money laundering legislation aimed at the activities of banks. The ability of regulatory and law enforcement officials to assess and ensure compliance with the BSA and to detect and prosecute money laundering is not affected materially by whether a foreign bank chooses to conduct business as a branch or a subsidiary in the United States.

2. Tax Considerations

The effect of a subsidiary requirement on the tax liability of a foreign bank would vary for banks from different countries, due to: (1) differences in home country tax laws; (2) the existence of U.S. income tax treaties with some, but not all, home countries; and (3) differences between the provisions of existing U.S. income tax treaties with different countries. Some preliminary conclusions can be drawn, however, as to whether particular tax-related consequences of a subsidiary requirement would tend to have a neutral or non-neutral effect on a foreign bank's tax liability and whether this effect would depend upon tax treaties or home country law.

The conversion of a branch into a subsidiary would generally be a tax-free transaction for purposes of U.S. taxation, but the home country tax consequences of the conversion would vary. However, the subsidiary would not be permitted to carry over (following conversion) any net operating losses that had been accumulated by the former U.S. branch. With that one important exception, the tax treatment of a subsidiary is generally equivalent to that of a branch. However, differences between the taxation of a branch and a subsidiary may be affected significantly by U.S. income tax treaties.

It is conceivable that a subsidiary requirement could induce a foreign bank to shift U.S. loans to foreign offices, as a result of limits that would apply to the subsidiary regarding amounts that may be lent to single borrowers. Interest paid by U.S. borrowers to foreign banking offices would be subject to gross basis U.S. withholding tax. Although a number of U.S.

income tax treaties would eliminate this withholding tax, there are countries for which either no U.S. income tax treaty exists or the applicable treaty retains a positive withholding rate for interest. In these cases, the U.S. withholding tax on interest could eliminate a foreign bank's net profit on a U.S. loan made from the home office. This could result in a reduction in lending in the U.S. market by the affected foreign banks.

3. Bankruptcy Considerations

Under U.S. law, a creditor of an insolvent U.S. branch of a foreign bank would be treated in much the same manner as a creditor of an insolvent domestic bank subsidiary of a foreign bank parent. Each would have access to assets of the branch or subsidiary under the jurisdiction of the U.S. liquidator.

Potentially, a creditor of a branch would have access to the worldwide assets of the foreign bank. A creditor of a subsidiary would not have any legal claim to the assets of the parent bank, assuming that no legal or factual basis exists for piercing the corporate veil. A subsidiary requirement, therefore, would potentially limit the assets available to creditors in the event of liquidation.

III. CONCLUSIONS

A subsidiary requirement applied either across-the-board or for purposes of expanded powers ("roll-up") would impose substantial economic and financial costs on the U.S. operations of foreign banks. By not permitting foreign banks the option of conducting U.S. operations in branches, the availability of credit in the U.S. market could be reduced, perhaps substantially. For example, the participation of foreign banks in lending syndicates, trade finance, and swaps and other products would be greatly restricted by the increase in costs and their inability to access their worldwide capital base. Imposition of such a subsidiary requirement would likely prompt foreign countries to retaliate against U.S. bank branches, perhaps by requiring that they establish a subsidiary or by restricting their activities.

Although some might argue that an unqualified subsidiary requirement would safeguard financial stability, more appropriate and effective measures are available for purposes of protecting safety and soundness. These include the promotion of adequate supervisory standards worldwide and the right to prohibit access to the U.S. market by banks that are not adequately supervised. The FBSEA, as well as the minimum standards for consolidated supervision established by the Basle Committee, represent important steps in this direction. Significantly, both measures implicitly endorse foreign bank branches.

In addition, U.S. bank regulators may impose specific measures upon troubled banks, including asset maintenance requirements and restrictions on transactions between a branch and its parent, that "wall-off" or "ring-fence" the activities of a branch from those of its troubled parent without the unnecessary costs and inefficiencies associated with a subsidiary requirement. In the past, these measures have successfully addressed problems arising at branches of troubled foreign banks without penalizing the activities of branches of healthy foreign banks.

The earlier case for roll-up was based upon the belief that differences in capital and regulatory standards might place U.S. banks at a competitive disadvantage in their own market. In this regard, the guidelines established in the Report on Capital Equivalency provide assurance that U.S. banks will not be placed at a competitive disadvantage in their own market. The joint annual updates on capital equivalency also provide the Board and the Treasury opportunity to ascertain that foreign banks are meeting capital and accounting standards equivalent to those required of U.S. banks.

Based upon an examination of all ten factors included in the legislation, the agencies oppose a subsidiary requirement that would be applied either across-the-board or for purposes of expanded powers ("roll-up"). The Treasury and the Board consistently have opposed a subsidiary requirement that would be applied to all foreign banking operations in the United States. The interagency review of regulatory developments reveals several significant changes since the introduction of the 1991 Administration proposal. The agencies, therefore, agree that neither competitive equity nor prudential considerations justify a "roll-up" of foreign bank branches should expanded powers be permitted to U.S. banks.

The United States believes that the guiding policy for foreign bank operations should be the principle of investor choice. The right of a foreign bank to determine whether to establish a branch or a subsidiary is consistent with competitive equity, national treatment and equality of competitive opportunity. Foreign countries with banks that are provided national treatment and equality of competitive opportunity in the U.S. market should offer U.S. banks national treatment and competitive equity in their market.

In the Uruguay Round negotiations, NAFTA discussions, and bilateral negotiations, U.S. officials have impressed upon other countries the importance of providing equality of competitive opportunity to U.S. banks and they will continue to do so. The agencies recognize that it is important to assure that U.S. negotiators have the necessary tools to advance U.S. interests abroad. However, the agencies agree that a subsidiary requirement applied to all foreign banking operations either across-the-board or for purposes of expanded powers is not desirable even in this context.

APPENDIX A

APPENDIX A

As shown in Chart 1, foreign banks have been expanding their activities at their U.S. offices, both in absolute amounts and as a share of banking activity in the United States. Between year-end 1980 and June 1992, assets of U.S. offices of foreign banks increased more than three-fold to $860 billion, and their share in the United States market nearly doubled from 12 percent to 23 percent.

Chart 2 provides data on the types of offices at which foreign banks conduct their U.S. activities. At mid-year 1992, branches and agencies accounted for over four-fifths of the assets of all foreign banks. Commercial bank subsidiaries accounted for almost one-fourth of foreign bank activity at year-end 1980; by June 1992, commercial bank subsidiaries constituted less than one-fifth of the total U.S. office assets of foreign banks.

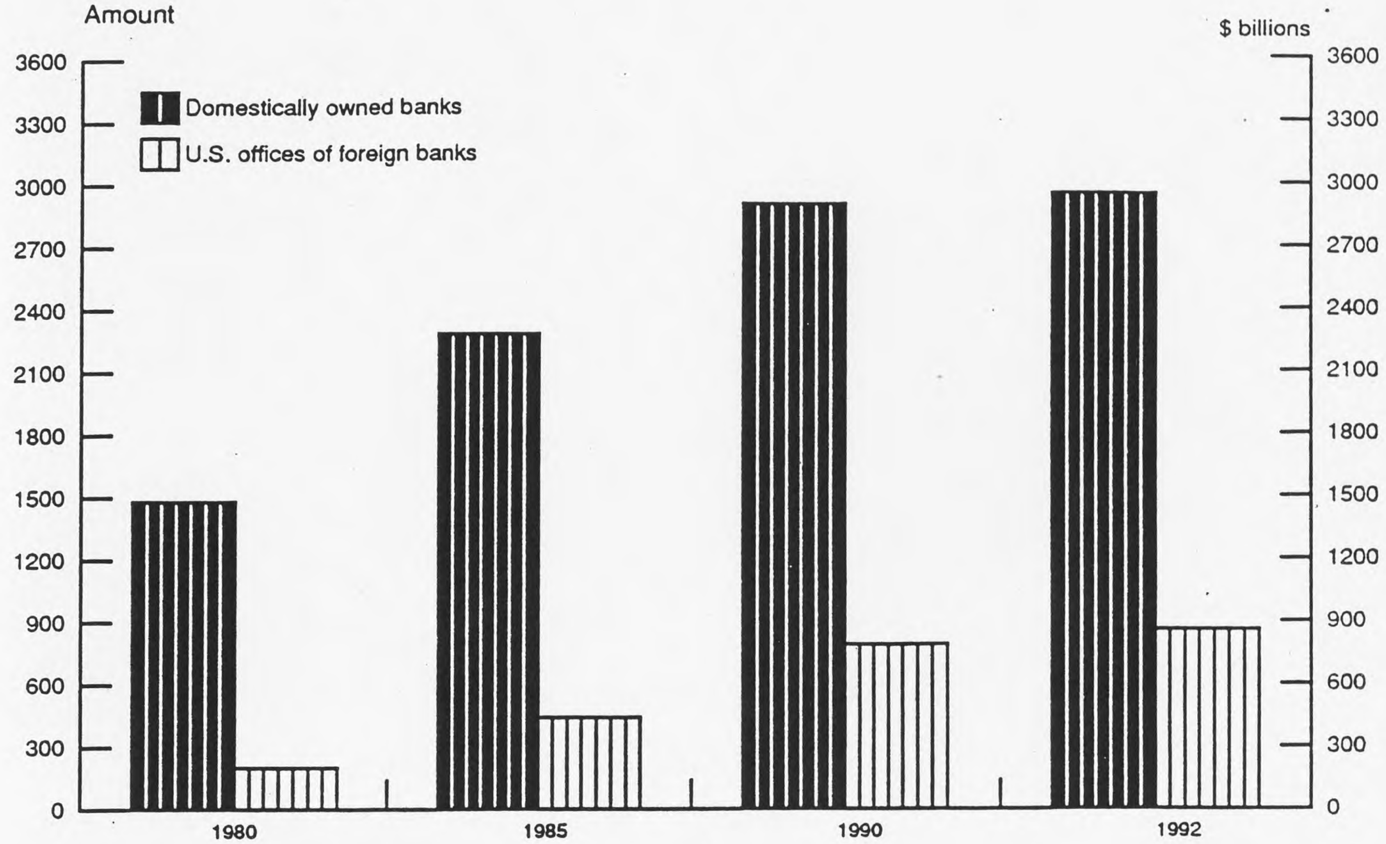
Chart 3 provides data on the nationality of foreign banks conducting business in the United States. The Japanese banks have been heavily represented in U.S. markets, having by far the largest national share. The Japanese banks' share of total foreign bank activity in the United States peaked in December 1989 at 57 percent, and has declined steadily since then as Japanese banks have retrenched generally in international markets. Canadian, French and Italian bank shares of foreign bank assets have generally been in the 5-10 percent range during this period. British banks' share of foreign bank activity in

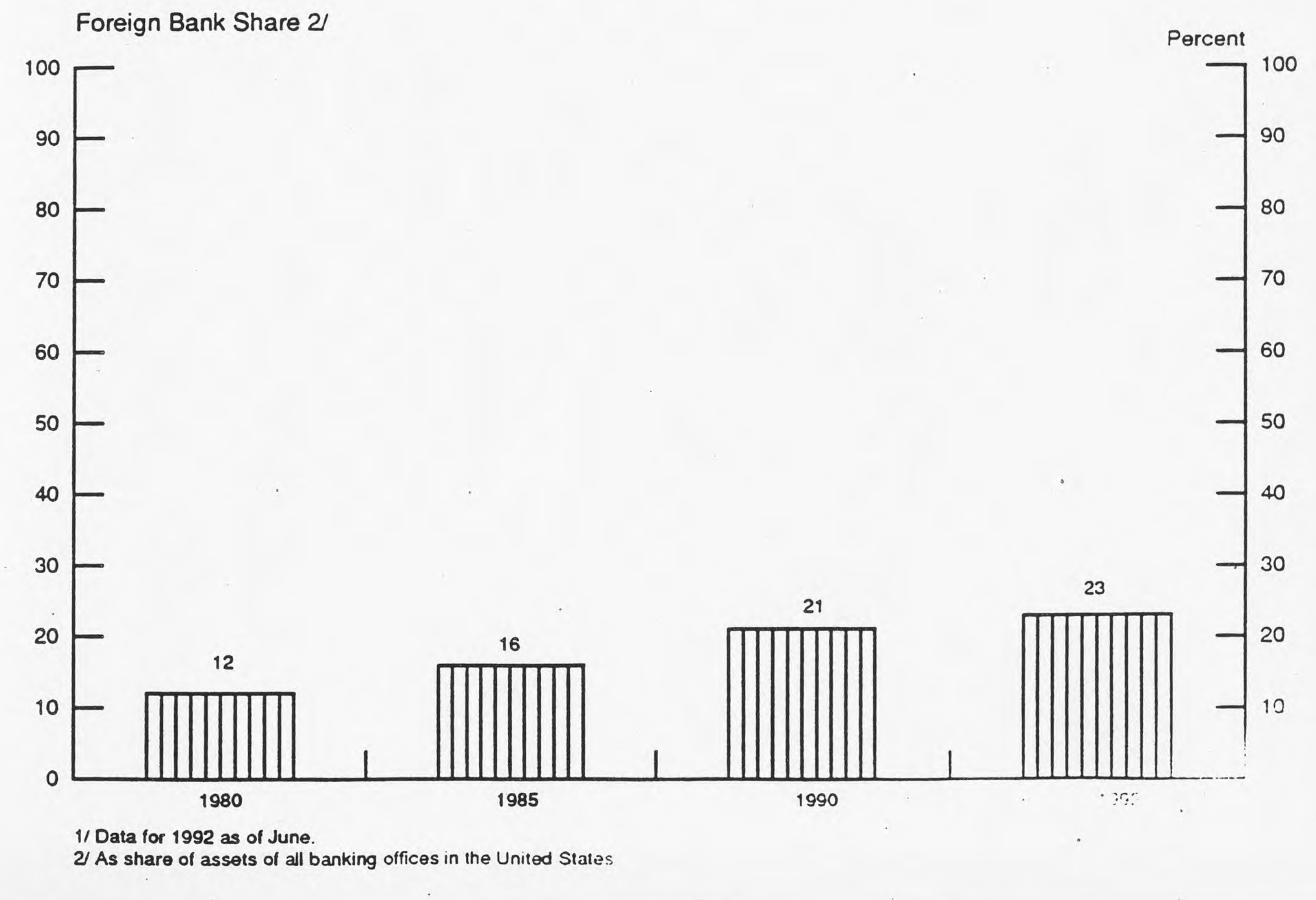
U.S. markets has declined by more than one-half during this period largely because of the sale of two large California banks. The Swiss banks' share of foreign bank activity has also declined since 1980. The German banks' share has been between 2 and 3 percent throughout the period.

Chart 4 provides data on the growth of foreign bank lending to businesses at their U.S. offices. This lending roughly paralleled the growth of their total assets, increasing more than three-fold during the period to stand at about $210 billion as of June 1992. The foreign banks' share of the market also doubled from 18 to 36 percent. The higher share in business lending by foreign banks reflects the concentration by branches and agencies of foreign banks in wholesale corporate lending rather than other types of lending.

For purposes of comparison, Chart 5 provides historical data on the types of overseas offices of U.S. banks. Similar to foreign banks in the United States, U.S. banks prefer branches to subsidiaries. In recent years, foreign subsidiaries have increased to about one-third of the total assets held by foreign offices of U.S. banks. This share increase reflects several trends, including expansion of retail-based subsidiaries in several countries, the use of subsidiaries by some U.S. banking companies to conduct a broader range of non-banking financial activities overseas, and the reduction in branch activity in overseas interbank eurodollar markets.

FOREIGN BANK ASSETS IN THE UNITED STATES 1/



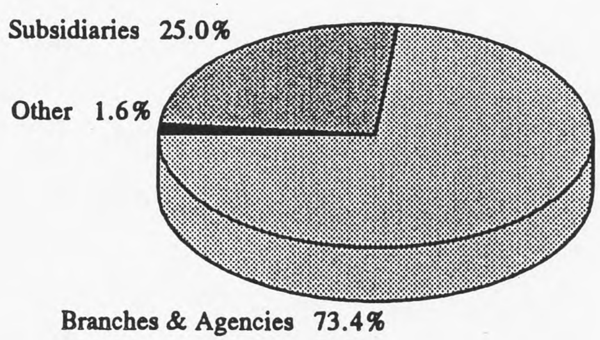


1/ Data for 1992 as of June.
2/ As share of assets of all banking offices in the United States

Chart 2

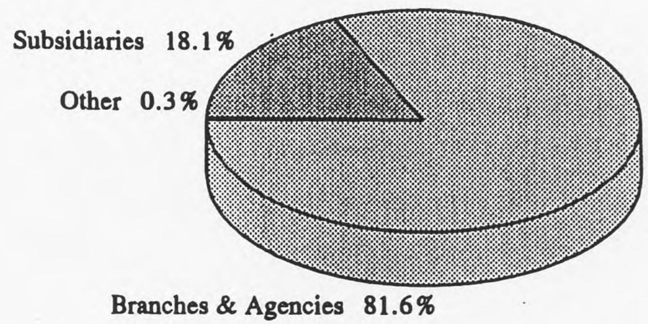
Share of U.S. Assets Held by Foreign Banks: By Type of Office

$201 Billion



1980

$861 Billion

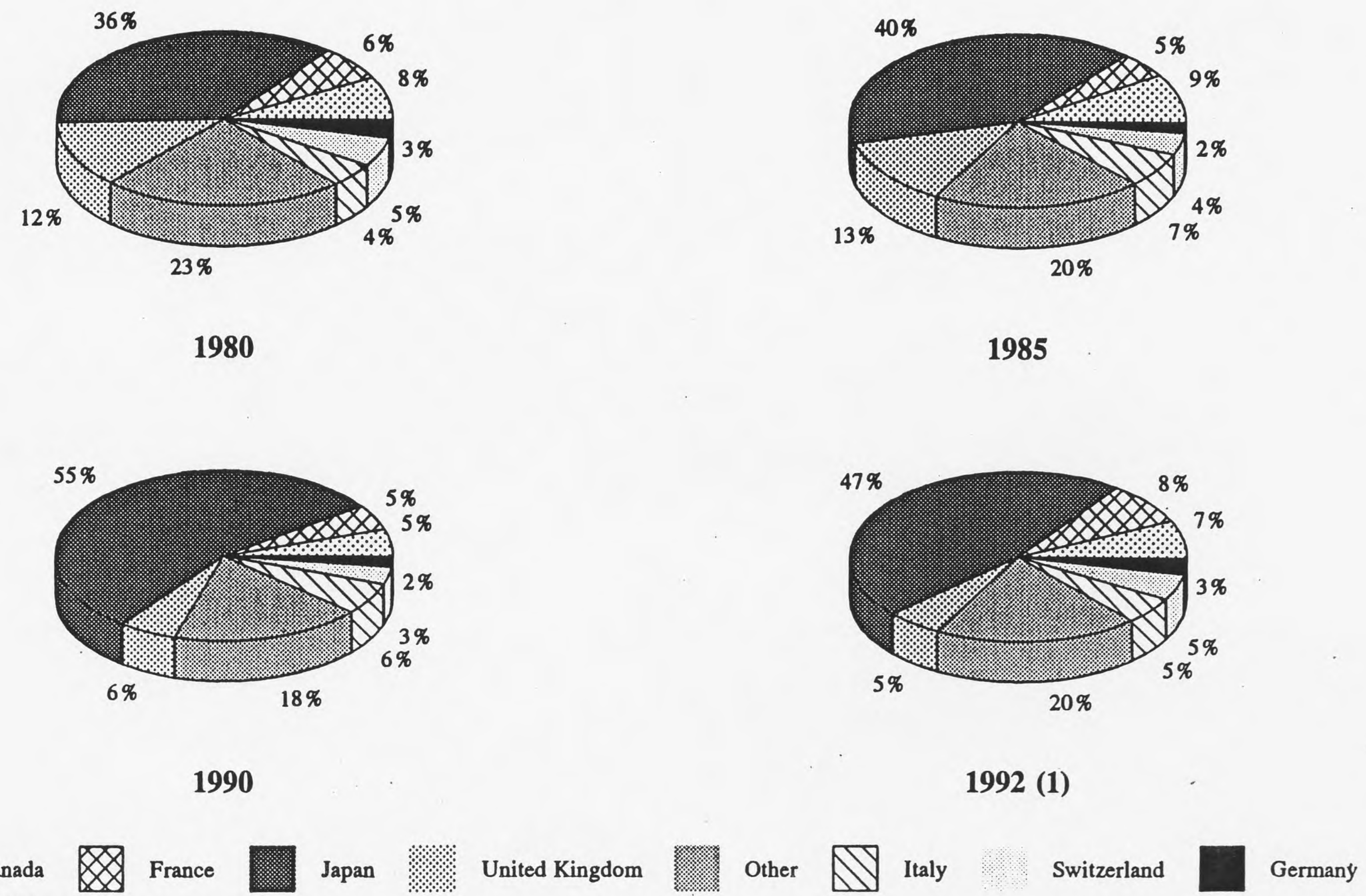


1992 (1)

(1) Data for 1992 as of June
Source: Federal Reserve

Chart 3

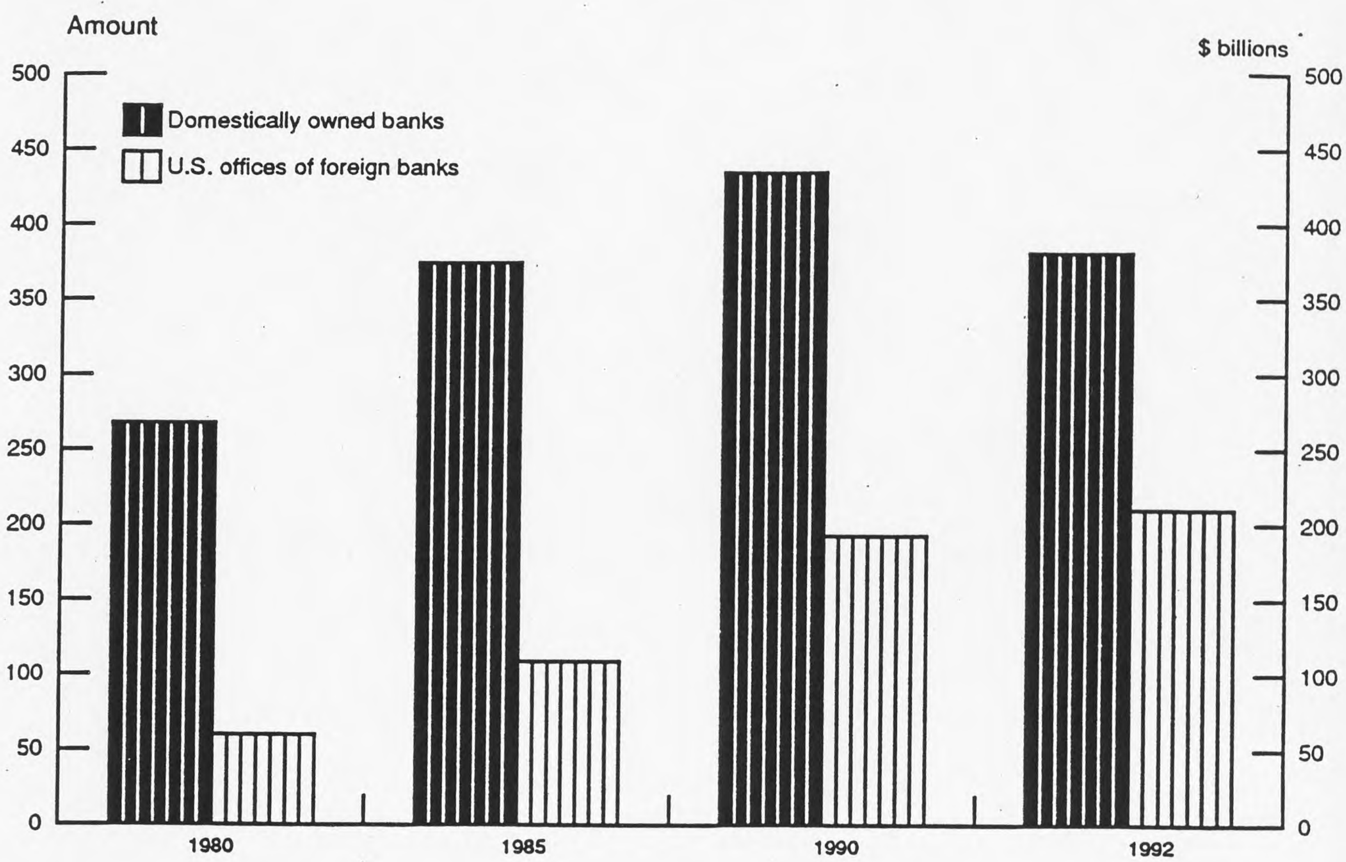
Share of U.S. Assets Held by Foreign Banks: By Home Country

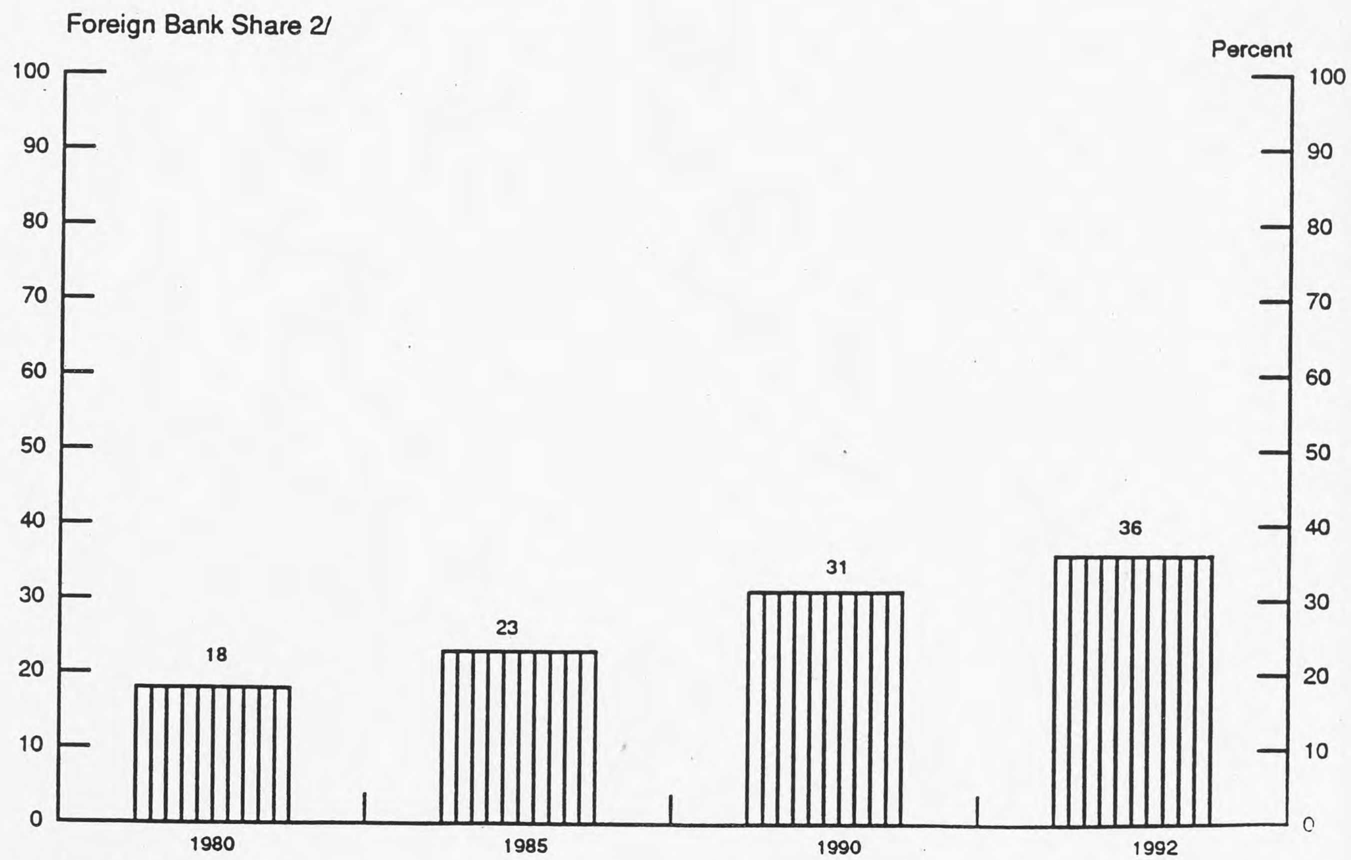


(1) Data for 1992 as of June

Source: Federal Reserve

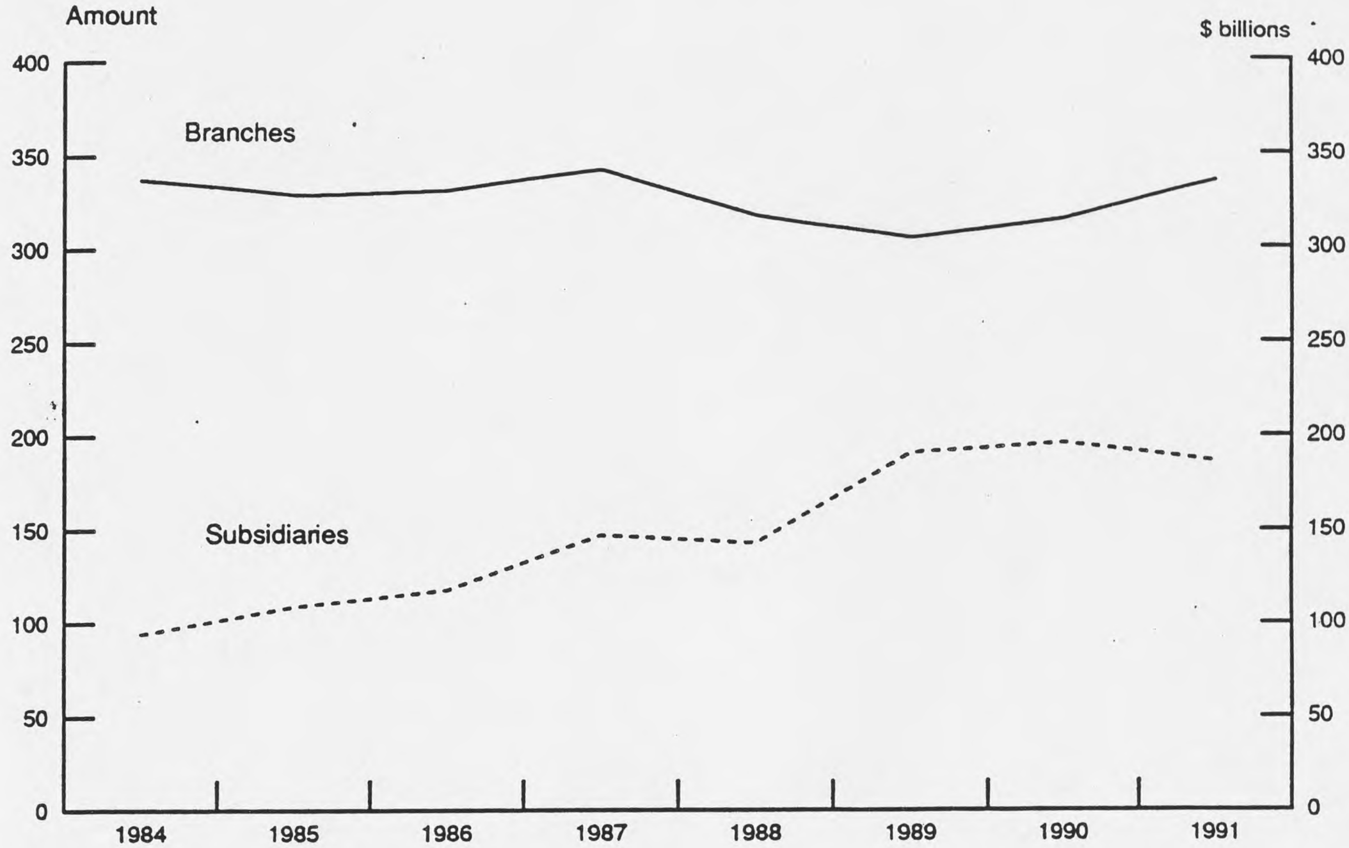
FOREIGN BANK BUSINESS LOANS AT U.S. OFFICES 1/

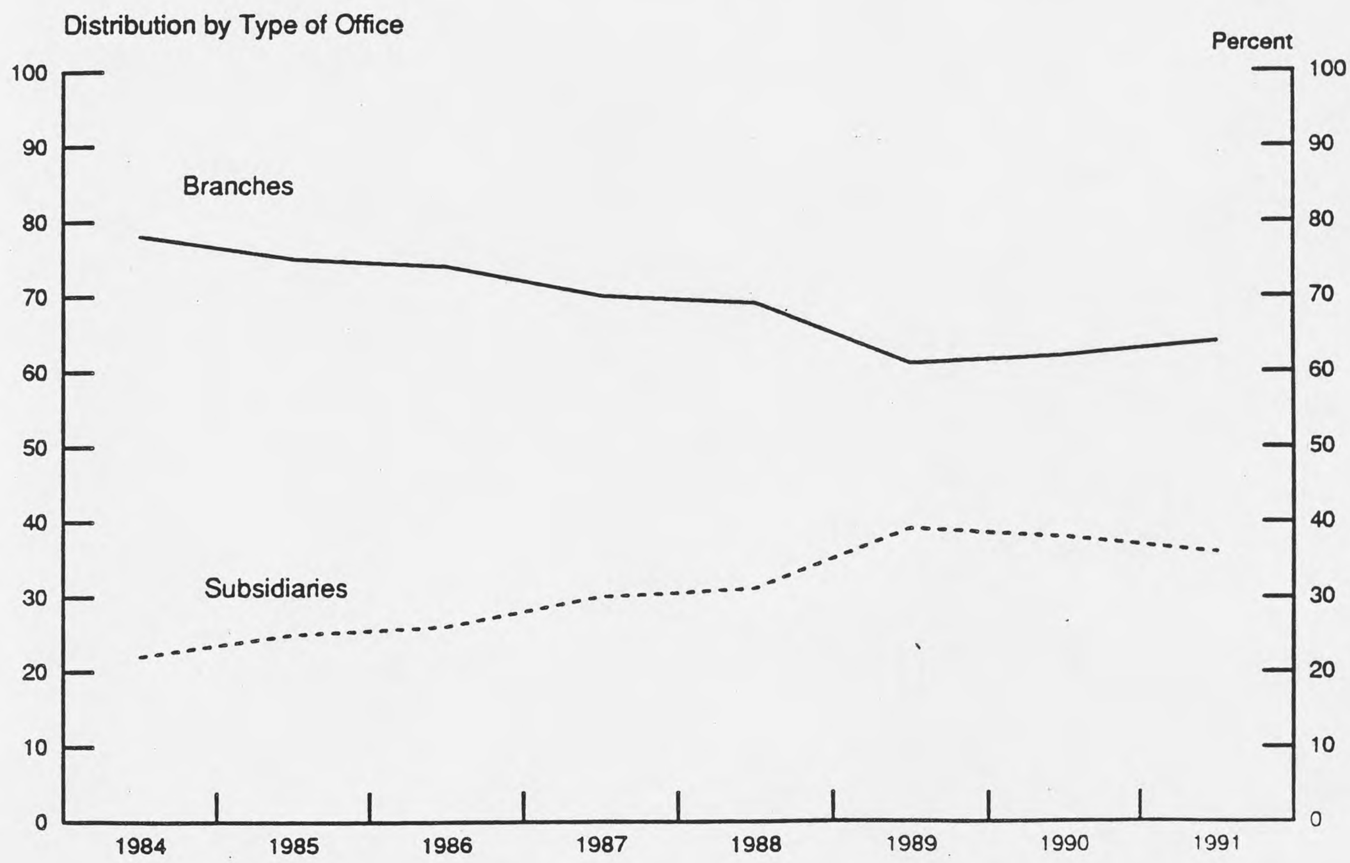




1/ Data for 1992 as of June.
2/ As share of business loans at all banking offices in the United States.

OVERSEAS OFFICE ASSETS OF U.S. BANKS: BY TYPE OF OFFICE





APPENDIX B

SECTION 215. STUDY AND REPORT ON SUBSIDIARY REQUIREMENTS FOR FOREIGN BANKS

(a) IN GENERAL. - The Secretary of the Treasury (hereafter referred to as the "Secretary"), jointly with the Board of Governors of the Federal Reserve System and in consultation with the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Attorney General, shall conduct a study of whether foreign banks should be required to conduct banking operations in the United States through subsidiaries rather than branches. In conducting the study, the Secretary shall take into account -

(1) differences in accounting and regulatory practices abroad and the difficulty of assuring that the foreign bank meets United States capital and management standards and is adequately supervised;

(2) implications for the deposit insurance system;

(3) competitive equity considerations;

(4) national treatment of foreign financial institutions;

(5) the need to prohibit money laundering and illegal payments;

(6) safety and soundness considerations;

(7) implications for international negotiations for liberalized trade in financial services;

(8) the tax liability of foreign banks;

(9) whether the establishment of subsidiaries by foreign banks to operate in the United States should be required only if United States Banks are authorized to engage in securities activities and interstate banking and branching; and

(10) differences in treatment of United States creditors under the bankruptcy and receivership laws.

(b) REPORT REQUIRED. - Not later than 1 year after the date of enactment of this Act, the Secretary shall transmit to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives a report on the results of the study under subsection (a). Any additional or dissenting views of participating agencies shall be included in the report.

APPENDIX C

REGULATORY IMPLICATIONS

REGULATORY PRACTICES AND SAFETY AND SOUNDNESS CONSIDERATIONS (FACTORS 1 AND 6)

APPENDIX C

REGULATORY PRACTICES AND SAFETY AND SOUNDNESS CONSIDERATIONS (FACTORS 1 AND 6)

I. SUBSIDIARY VS. BRANCH: REGULATORY PRACTICES

Pursuant to federal banking laws[1], the Board of Governors of the Federal Reserve System ("the Board") and the Office of the Comptroller of the Currency ("the OCC") are required to evaluate, among other things, the financial and managerial resources of foreign banking organizations that apply to acquire a subsidiary bank or establish a branch or agency. Whether the application relates to the acquisition or establishment of a bank or the establishment of a branch or agency, the Board and the OCC evaluate applications by foreign banking organizations under the same set of general criteria relating to financial and managerial strength. The application process is designed to screen foreign banks in terms of their ability to participate in the U.S. banking market under applicable statutory and prudential standards.

In evaluating the managerial resources of foreign banks applying to acquire a subsidiary bank or establish a branch or agency, the supervisory authorities in the home country are

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[1] International Banking Act of 1978, as amended; Bank Holding Company Act of 1956, as amended. Prior to passage of the Foreign Bank Supervision Enhancement Act of 1991, which amended the International Banking Act of 1978, the Federal Reserve had no formal role in the licensing of branches and agencies of foreign banks by either the Office of the Comptroller of the Currency or any state.

routinely contacted in order to obtain information which bears on the management resources, reputation and standing of the foreign bank. In addition, a general review is conducted of the experience and expertise of the proposed U.S. management and background checks are made.

In evaluating the financial condition of a foreign banking organization, sufficient information is required from the applicant in order to permit an assessment of the financial strength and operating performance of the foreign organization. Factors taken into account include capital, profitability, concentrations of risk, liquidity and asset quality. Differences in accounting and regulatory practices are also generally taken into account. In this regard, information submitted will consist of reports prepared in accordance with local practices together with an explanation and reconciliation of major differences between local accounting standards and U.S. generally accepted accounting procedures.

The issue of capital equivalency was recently examined in a report to the House and Senate Banking Committees that was prepared jointly by the Board and Treasury. (See, Capital Equivalency Report, June 17, 1992.) The detailed findings of that report need not be reiterated here; broadly, however, the report concluded that the minimum capital standard established by the Basle Accord provides a common basis for evaluating the general equivalency of capital among banks from various countries.

Although differences in regulatory practices among supervisors continue to exist, efforts are under way to reduce these differences, to the extent possible. Discussions are currently taking place among various supervisors relating to the convergence of regulatory practices. A recent example of the efforts undertaken by banking supervisors is the minimum standards for the supervision of international banking groups and their cross-border establishments proposed by the Basle Committee on Banking Supervision.

In acting on applications by foreign banks, the Board or OCC, in any event, is required to ascertain that the foreign bank is subject to comprehensive supervision on a consolidated basis by the home country supervisor. This requirement applies whether the foreign bank is seeking to acquire or establish a banking subsidiary or establish a branch or agency in the United States.

Once a foreign bank establishes a U.S. banking presence, that banking operation, whether an agency, branch or subsidiary bank, is supervised and regulated under U.S. rules. Such an operation, whether branch or subsidiary, is expected to maintain records and conduct operations in accordance with U.S. banking and regulatory practices.

For example, regardless of the accounting practices of the foreign banking organization's home country, operations of foreign banks in the United States, whether conducted through a subsidiary bank or a branch or agency, are subject to U.S.

regulatory accounting standards. Individual branches and agencies must also follow U.S. regulatory standards in the preparation of their quarterly reports provided to the federal banking regulators (Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks - FFIEC 002). Similarly, branches and agencies are expected to have internal controls and operating procedures that meet U.S. standards. These procedures are subject to examination and, where necessary, U.S. banking authorities can and have used their supervisory powers to force remedial action. The basic standards applied to branches and the range of regulatory powers available to assure compliance with U.S. rules broadly compare to those applicable to subsidiary banks.

II. SUBSIDIARY VS. BRANCH: SAFETY AND SOUNDNESS CONSIDERATIONS

Safety and soundness can be defined essentially as the extent to which depositors and creditors can be assured that a bank is being operated in a manner that does not expose them to undue risk of loss. Safety and soundness also encompasses a consideration of the risk of loss to the federal deposit insurance fund in the event that the FDIC has to reimburse insured depositors. For a bank with a large volume of insured deposits, substantial risk is borne by the insurance fund. On the other hand, for an institution that accepts primarily uninsured deposits, to the extent that losses exceed capital, losses would be absorbed by depositors and other creditors.

In addition to the concern that banking institutions be operated in such a way as to prevent losses to depositors or to the insurance fund, there is also the potential that an institution could operate outside the bounds of the law, such as by engaging in money laundering or other illicit activities. Thus, safety and soundness further encompasses the principle that an institution operates in compliance with the law. Considerations related to legal compliance are discussed fully in the paper on Factor 5 regarding the need to prohibit money laundering and other illegal payments. Generally, this review found that there are no significant differences between the branch and subsidiary form of organizational structure with respect to compliance with the law. Both types of operation are examined and are subject to enforcement actions and penalties for violations of the law.

There are a number of theoretical advantages and disadvantages, from a safety and soundness standpoint, associated with the two basic forms of organization for U.S. operations of foreign banks. These advantages and disadvantages are embodied in the legal and regulatory differences between branches and subsidiaries, which affect the way they operate. A discussion of the characteristics of each form of organization is provided below. For purposes of this discussion, it is assumed that branches of foreign banks do not accept retail deposits and, thus, do not have deposit insurance.[2]

Comparison of Branches and Subsidiaries

A subsidiary of an organization is a legal entity separate from its parent. Generally, the actions of a subsidiary are not attributed to its parent. As a result, the parent is not legally required to support the subsidiary's operations or to meet its obligations. There is, however, no legal distinction between a branch of an organization and the organization as a whole. Generally, obligations of a branch are obligations of the organization.

In considering the implications for bank safety and soundness of the subsidiary form of organization, one view is that a subsidiary is more insulated, at least in terms of corporate form, from the rest of the parent organization than a branch and has its own capital base to absorb losses. The extent to which a subsidiary bank may engage in transactions with the parent bank is more closely controlled than are branch relations with the bank, thereby reducing potential concentrations of exposure to the parent and related entities. Also, a subsidiary bank's single borrower lending limit is based on the subsidiary

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[2] Insured branches of foreign banks in the United States currently represent a very small sub-set of the total U.S. branches and agencies of foreign banks. Due to recent legislative changes, while existing insured branches have been grandfathered, generally no new insured branches may be established. For this reason, this paper will focus upon uninsured branches of foreign banks.

bank's own level of capitalization and is often quite small in relation to the total resources of the parent. However, subsidiary banks must obtain deposit insurance, which may have the effect of reducing market discipline. (See separate paper addressing considerations related to deposit insurance.)

A subsidiary, by virtue of its separate corporate existence, however, is denied the benefit of being an integral part of a larger, more diversified banking institution. Although theoretically a local bank subsidiary of a foreign parent bank can operate profitably as a stand-alone entity without the benefit of direct access to its parent's funding, support and name, this access in reality is often critical to the subsidiary's survival of a downturn in its market. A parent institution could, under the law, allow a subsidiary to fail without providing additional support. In practice, it is likely that only <u>in extremis</u> would a banking institution with international operations allow a subsidiary to fail, in view of the potentially harmful effect this would have on the parent bank's market reputation and its ability to obtain funding in other markets.

On the other hand, collapse of the parent bank can cause serious difficulties for a subsidiary, including liquidity problems, to the extent that there is market identification of the subsidiary with the parent bank. The strength of its parent, therefore, continues to be a highly relevant consideration for supervisors in assessing the safety and soundness of even a separately capitalized subsidiary bank.

Under the branch form of organization, the U.S. office functions not as an independent entity but rather as an integral part of the parent organization, which serves as a direct source of funding and support for the U.S. office. While not necessarily diversified themselves, branches also benefit from the overall diversification of the consolidated organization. Using this form of organization, a bank may enhance its overall profitability through the use of branches that carry out particular functions within the organization or serve specific markets. For example, since transactions with the parent are not restricted, those business functions that require significant volumes of intercompany transactions, such as dollar clearing and global trading functions, are often carried out through branches. The lack of restrictions on transactions with the foreign parent also facilitates the transfer of funds within the organization, both to provide support when needed and to take advantage of opportunities to maximize overall profits. Finally, a branch's lending limit is based on the consolidated capital of the foreign bank parent.

A branch's safety and soundness, however, is directly linked to that of its parent. A branch cannot survive as an independent operating entity if its parent bank fails. In addition, deposits placed with a branch are ultimately deposits with the foreign parent and are subject in large part to the country risk of the parent bank. Branches normally fund their operations by accessing the wholesale markets and depositors operating in these markets are expected to recognize these risks and make investment decisions accordingly, which imposes market discipline upon branches seeking such funding.

While there are these general distinctions between branches and subsidiaries, bank supervisory authorities in some countries have taken steps to make foreign bank branch and subsidiary operations more alike. For example, German supervisory authorities have established "dotation" capital requirements for branches of foreign banks, under which branches are required to maintain a "capital" position. Credit extended and participations held by the branch are limited to a specified amount of this "capital."

Some state supervisors in the United States have employed a different approach by imposing "asset maintenance" requirements upon certain individual banks that are experiencing financial weakness or are from countries whose currencies or economies are considered to be unstable. Under asset maintenance requirements, a branch or agency is required to maintain assets that exceed third-party liabilities by a certain stated percentage.

Federal branches and agencies of foreign banks are required to maintain a "capital equivalency deposit" (CED) with a Federal Reserve member bank in the amount of five percent of the branch's (or agency's) third party liabilities. U.S. federal bank regulatory authorities also have the authority under existing law to restrict branch operations in appropriate cases in such a way as to provide additional protection to local depositors and creditors by, for example, introducing asset maintenance requirements.

Another possible way to make a foreign bank's branch operations more similar to subsidiary operations is to place limits on transactions with the foreign parent, such as by subjecting the branch operations to limitations on transactions with affiliates similar to those contained in section 23A of the Federal Reserve Act. In the United States, however, such prudential requirements have not had the effect of requiring the branch to operate as a subsidiary in the conduct of its business operations.

Asset maintenance requirements, restrictions such as those required under Section 23A of the Federal Reserve Act, and other supervisory actions can and have been used by U.S. regulators to impose restrictions in particular cases, when believed to be necessary to deal with specific problems for safety and soundness purposes. These restrictions have the effect of insulating the financial condition of the branch or agency from that of the rest of the organization in much the same manner as the incorporation of a separate subsidiary.

However, while useful in dealing with specific problems, imposition of prudential requirements across the board in ways that would limit business operations would effectively prevent branches from functioning as intended within the operating plans of the respective foreign banking organizations and would risk the relocation of their business outside the United States. Such an approach could also have further negative repercussions in that bank regulators abroad could subject U.S. banks' overseas operations to similar requirements.

In any event, there have been very few instances where foreign banks with U.S. operations have failed or where the U.S. operations of a foreign bank have required rescue. Those instances that have occurred in recent years have resulted in no losses to either depositors or creditors of the U.S. operation, whether in a branch or subsidiary form. (For further discussion of these matters, see separate paper on bankruptcy.)

Conclusion

Our experience to date has shown that the U.S. operations of foreign banks can be operated safely under either the branch or the subsidiary form of organization. Instances of failure, with respect to either the parent or the U.S. operation, have been very few and, where they have occurred, have been resolved without loss to either insured or uninsured depositors or to the deposit insurance fund. This has been the result with respect to both the branch and subsidiary form of organization.

The issues raised in the Report to the Senate Committee on Foreign Relations from Senators Kerry and Brown, dated September 30, 1992, regarding a subsidiary requirement were considered at length during the course of this study. Although there are theoretical advantages and disadvantages with respect to safety and soundness considerations under the two forms of organization, these distinctions are primarily associated with differences in the way the two forms of organization operate and do not support a conclusion that one form is inherently more safe and sound than the other. The ongoing convergence of supervisory standards, including those relating to the comprehensive supervision of banking organizations operating internationally, should enhance the ability of supervisors to monitor and enforce principles of safe and sound operation for all types of U.S. operations of foreign banks.

IMPLICATIONS FOR THE DEPOSIT INSURANCE SYSTEM (FACTOR 2)

APPENDIX C

IMPLICATIONS FOR THE DEPOSIT INSURANCE SYSTEM

I. SUMMARY AND CONCLUSIONS

The direct, short-term implications for the U.S. deposit insurance system of requiring foreign banks to conduct banking operations in the United States through subsidiaries, and not branches, are: (1) the deposit insurance assessment base and, consequently, the assessment income of the Federal Deposit Insurance Corporation ("FDIC") are likely to increase; (2) the amount of deposits covered by the FDIC and, therefore, the contingent liabilities of the FDIC are likely to increase; and (3) the risk exposure of the FDIC is likely to increase in response to changes in the structure of the U.S. banking system and the enhanced ability of a foreign bank parent to restrict or withhold support from a separate subsidiary.

It is not possible to quantify the impact of these changes on the deposit insurance system because the subsidiary requirement could create an incentive for foreign banks to move their current operations outside of the United States. As a result of the requirement, foreign banks would be likely to restructure their balance sheets, probably by reducing their assets and liabilities in the United States, to lessen insurance costs (and other costs of operating a subsidiary). The longer term implications of the subsidiary requirement depend on whether the requirement strengthens or weakens the structure and condition of the U.S. banking system as any changes in the banking system may affect the risk exposure of the deposit insurance fund.

II. ANALYSIS

This analysis is divided into three sections: (A) Background, (B) Current Law, and (C) Implications of Change.

A. Background

As of June 1992, foreign banks operated 382 branches in the United States. These branches held aggregate liabilities of $598 billion, or 18.7 percent of the total liabilities held by FDIC-insured commercial banks. As of the same date, 52 branches had FDIC insurance and held $10.1 billion in assets and $4.1 billion in deposits (excluding international banking facility ("IBF") deposits).[1]

U.S. branches of foreign banks generally focus on wholesale banking activities more so than most U.S. banks. As a result, these branches rely more heavily on borrowed funds and on other funds that are not subject to FDIC insurance assessments than U.S. banks do generally. For example, as of June 1992, deposits accounted for 54% of liabilities of U.S. branches of foreign

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[1] In addition, 220 agencies of foreign banks held total liabilities of $101.2 billion on that date. The main difference between branches and agencies is that agencies may only accept "credit balances" received in connection with the customer's other business with the agency, and not deposits, from U.S. citizens or residents.

banks, as compared with 83% of the liabilities of FDIC-insured U.S. commercial banks.[2]

U.S. branches of foreign banks also make extensive use of international banking facilities (IBFs)[3]. IBFs were first authorized for use by all banks in 1981 to attract Eurocurrency business, which is a wholesale banking activity, by allowing banks to conduct a deposit and loan business with foreign residents free from reserve requirements and FDIC insurance assessments. Only time deposits that originate from foreign sources, other IBFs or sister offices, and generally that have a minimum transaction size of $100,000, may be placed in IBFs. As of June 1992, U.S. branches of foreign banks held more than half (56 percent) of their deposits in IBFs.

B. Current Law

The Federal Deposit Insurance Act ("FDI Act") requires the federal deposit insurance system, administered by the FDIC, to insure up to $100,000 of the deposits held by each depositor at an insured depository institution. 12 U.S.C. § 1821(a)(1). Insurance coverage of a U.S. bank extends both to retail and

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[2] This relatively low percentage of deposits to total liabilities may even understate the wholesale orientation of foreign bank branches. A large proportion of foreign branch deposits are in fact funds due to banks and, in response to a subsidiary requirement, could be converted to term federal funds or to borrowings to avoid FDIC assessments.

[3] Both U.S. banks and U.S. offices of foreign banks are permitted to establish IBFs, which consist of asset and liability accounts segregated on the books of the bank that has established the IBF. An IBF is not a separate entity from the bank.

wholesale deposits once an institution is insured; deposits held in an insured branch of a foreign bank receive insurance protection only if received from a U.S. citizen or resident unless the FDIC determines otherwise. 12 U.S.C. 1813(m)(2).

Insured institutions must pay semi-annual assessments to the FDIC for deposit insurance.[4] Under the current insurance system, an institution's assessment equals one-half of the "assessment rate" multiplied by the institution's "average assessment base". The FDIC recently increased the assessment rate from $0.23 per $100 of deposits to an average of $0.254 per $100 of deposits. The assessment base for insured branches of foreign banks is essentially the same as for an insured U.S. bank, i.e., domestic deposits reduced for float.[5] The assessment base includes neither deposits held in IBFs nor deposits held by U.S. offices of Edge and agreement corporations, as these are not domestic deposits. An institution's average assessment base equals the average of an institution's assessment base on the two semi-annual dates that call reports (FFIEC 031) are submitted.

U.S. branches of foreign banks were not eligible for federal deposit insurance until the enactment of the International Banking Act of 1978 ("IBA"). The IBA originally required any branch of a foreign bank that accepted deposits of less than

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[4] Section 7 of the FDI Act governs the current deposit insurance assessment system, and includes details on the computation procedures. 12 U.S.C. § 1817.

[5] Domestic deposits are demand deposit liabilities and time and savings deposit liabilities held in domestic offices of banks in the United States, its territories, and its possessions.

$100,000 that are domestic retail deposits as determined by the FDIC, or by the Office of the Comptroller of the Currency in the case of federal branches, to obtain deposit insurance. 12 U.S.C. § 3104(a), (b). The Foreign Bank Supervision Enhancement Act of 1991 ("FBSEA") extended this restriction by requiring foreign banks to conduct domestic retail deposit taking activities requiring deposit insurance protection only through an insured bank subsidiary. 12 U.S.C. § 3104(c). As a result, foreign banks cannot generally establish new insured branches to conduct such activities. Existing insured branches are grandfathered.[6]

C. Implications of Imposing a Subsidiary Requirement

Requiring branches of foreign banks to roll-up their operations into subsidiaries will affect the assessment base, assessment income, liabilities, and risks of the deposit insurance system. Assuming U.S. branches of foreign banks converted to subsidiaries without changing their liability structure, the assessment base of the FDIC would increase by the amount of non-IBF deposits then held in all uninsured foreign bank branches. As of June 1992, these deposits amounted to $129.3 billion, or about 5.5 percent of the $2,353 billion in assessable deposits in all FDIC-insured commercial banks. At the new annual average assessment rate of $0.254 per $100 of

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[6] The FBSEA originally raised an issue as to whether a foreign bank must form an insured subsidiary to accept any type of deposit that is less than $100,000, rather than just domestic retail deposits. Congress clarified in legislation enacted on October 28, 1992 that a subsidiary is only required for domestic retail deposit-taking activities.

deposits, the assessment income of the FDIC would increase by $341 million, or 6.0 percent of the 1991 assessment income of $5.2 billion.[7]

It is unlikely, however, that the assessable deposits or income of the FDIC would actually increase by these amounts. Increases in the assessment base and income of the FDIC would depend on the willingness of foreign banks (or their depositors if increased costs are passed on by the foreign banks) to pay the FDIC assessments. Foreign banks have several permissible options for restructuring their operations to avoid incurring the additional costs of deposit insurance premiums. Foreign banks could simply close their U.S. branches and move some or all of their U.S. operations offshore. Any business that foreign banks could not move offshore might shift to U.S. banks.[8] The foreign banks that form U.S. subsidiaries might restructure their funding requirements to types of liabilities, such as borrowings, that are not subject to FDIC premiums. The latter practice is often used by U.S. banks. Either of these restructuring measures would be relatively easy to implement because a large portion of the current deposits of foreign bank branches are from other banks or are foreign in origin.

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[7] The 1991 assessment income was based on an assessment rate of $0.23.

[8] The U.S. business of branches of foreign banks that shifted to U.S. banks might, in turn, be transferred to the off-shore branches of these banks, thus remaining outside the FDIC's assessment base.

The sensitivity of the funding decisions of banks with wholesale operations -- including U.S. branches of foreign banks -- to small changes in relative costs has been clearly demonstrated on numerous occasions. The most recent example occurred in late 1990 with the reduction in reserve requirements. Prior to this reduction, reserve requirements created an incentive for U.S. branches and agencies to obtain funds in the Eurodollar market at 0.05 to 0.10 of a percent less than the cost of booking large time deposits in the United States.[9] When the reserve requirements were reduced, this small yield-spread vanished and large time deposits at U.S. branches and agencies of foreign banks more than doubled, from $60 billion to $130 billion, in the first half of 1991.

The assessment of an insurance premium resulting from the subsidiary requirement would also add to the cost of booking deposits in the United States. This assessment, which would be similar to a reserve requirement of approximately 0.254 percent, would be roughly three times the size of the previous reserve requirement. The insurance premium would almost certainly cause U.S. branches of foreign banks to curtail or even to cease their acceptance of deposits in the United States.

The subsidiary requirement would also affect the costs and risks of the deposit insurance system. A risk-based assessment

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[9] Reserve requirements specify the fraction of various categories of U.S. deposits banks must hold in vault cash or in non-interest bearing accounts with the Federal Reserve. Interest foregone on such reserves has been compared to a tax on banks.

system would appear to be easier to implement for subsidiaries than for branches, at least in principle. The information available on a subsidiary would seem to be more meaningful for evaluating risk than that available on a branch, since a subsidiary is a separate legal entity, while a branch is an integral part of its parent. In practice, however, a subsidiary requirement would not simplify implementation of the risk-based assessment system in this manner. As discussed in the Safety and Soundness portion of this study, the financial strength and risks of the parent are relevant to the risks of a subsidiary, as well as a branch, and require evaluation in both circumstances.

A subsidiary requirement could reduce the risk exposure of the deposit insurance system if it simplified supervision and, in the event of failure, liquidation. With respect to supervision, U.S. regulators may seem to have more control over a U.S. incorporated subsidiary bank (at least over those activities that are not moved offshore) than over a U.S. branch of a foreign bank. However, under the FBSEA, supervisors were granted similar statutory powers with regard to U.S. branches and agencies of foreign banks as U.S. banks. See also "Safety and Soundness," Factor 6.

With respect to liquidation, while receivership might appear easier to administer for a subsidiary than for a branch of a foreign bank, there might equally be advantages to liquidating a branch rather than a subsidiary. Requiring a foreign bank to operate only through a subsidiary places a legal shield between the parent foreign bank and its U.S. operations. Although a foreign bank is already liable for the operations of its branches, a foreign bank's liability for its subsidiary is limited by law to the capital invested and to any guarantees of the subsidiary's liabilities. Thus, in a liquidation, a foreign bank could withdraw support more easily from a subsidiary. This potential may increase risks to the deposit insurance system.

The FDIC has no experience in liquidating an insured branch of a foreign bank. Its only experience in closing an office of a foreign bank consists of the liquidation of an insured subsidiary of a foreign bank. In this case, in contravention of U.S. law, the U.S. subsidiary transferred assets to its parent. The FDIC eventually recovered the assets, but only after a protracted struggle.

Only a few branches and agencies of foreign banks have been liquidated by other U.S. bank regulators since foreign banks began operating directly in the United States in 1945. In these few liquidations, all U.S. creditors, including depositors, were paid in full.

APPENDIX D

NATIONAL TREATMENT/ FINANCIAL SERVICES IMPLICATIONS

NATIONAL TREATMENT/ COMPETITIVE EQUITY CONSIDERATIONS (FACTORS 3, 4 AND 9)

APPENDIX D

NATIONAL TREATMENT/COMPETITIVE EQUITY CONSIDERATIONS (FACTORS 3, 4 AND 9)

I. MEANING OF "NATIONAL TREATMENT" AND "COMPETITIVE EQUITY"

"National treatment" is based on the principle of nondiscrimination between domestic and foreign firms. This policy has generally been followed by the United States with respect to many sectors and has been subscribed to through different mechanisms. The Friendship, Commerce and Navigation Treaties of the United States and the OECD National Treatment Instrument define national treatment as treatment under host-country laws, regulations and administrative practices "no less favorable than that accorded in like situations to domestic enterprises." The expression "no less favorable" is meant to allow for the possibility that exact national treatment cannot always be achieved. Although not established by statute, national treatment has been the U.S. attitude toward foreign direct investment since World War II. The International Banking Act of 1978 (IBA) applied this policy to the treatment of foreign banks in the United States.

Both in applying the concept of national treatment to foreign banks in the United States and in evaluating the treatment of U.S. banks abroad, the United States has attempted to ensure that national treatment means <u>de facto</u> not just <u>de jure</u> national treatment. Thus, the U.S. position has been that national treatment must be interpreted in a meaningful, common-sense way, as opposed to a rigid, mechanical application of host-country rules.

Consistent with this approach, over the years the U.S. Government has used several additional terms to elaborate upon the concept of national treatment. These include "competitive equity," "equality of competitive opportunity" and "same competitive opportunities." These terms have been helpful elaborations for financial policy-makers in consideration of the U.S. policy of national treatment, especially in light of an alternative interpretation that views identical treatment as consistent with national treatment, even though identical treatment might nonetheless impose real competitive disadvantages to foreign firms.[1]

For this reason, in the Uruguay Round negotiations on trade in services, it has been acknowledged that national treatment may involve either identical or different treatment of foreign and domestic firms. The treatment would be considered "less favorable" if it modified the "conditions of competition" in favor of domestic over foreign firms.

For purposes of this study, the implications of imposing a subsidiary requirement upon foreign banks will be considered in terms of the standard of de facto national treatment, that is, treatment of foreign banks that could be

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[1] For a discussion of equality of competitive opportunity and the distinctions between de facto and de jure national treatment, see the 1979 Report to Congress on Foreign Government Treatment of U.S. Commercial Banking Organizations, pages 1-3 and 15-18.

identical to or different from the treatment of domestic banks but is no less favorable when all circumstances are taken into account.

In this section, unless indicated otherwise, the term "national treatment" will be used to refer to both establishment and operations of foreign banks.[2]

II. RECIPROCAL NATIONAL TREATMENT

The Treasury Department believes it is important to note that, in recent years, a number of countries have adopted legislation that incorporates a reciprocal national treatment standard. Pursuant to such legislation, foreign firms could be denied national treatment if the home market of the foreign firm does not offer national treatment to firms of the country concerned. In 1984, 11 OECD members had reciprocity powers available to them. By January 1993, at least 18 of the 24 OECD members will have some form of reciprocity powers available, including Japan, the United Kingdom, and Germany.

The movement towards reciprocity or reciprocal national treatment in many other industrial countries and the slow progress in achieving national treatment and equality of competitive opportunity in some foreign markets have raised the question of whether the United States should change its

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[2] The term "national treatment" refers to the operations of financial institutions but, in specific cases, may not refer to the rights of establishment. For example, the OECD "National Treatment Instrument" does not refer to establishment, which is covered under the OECD Codes of Liberalization.

fundamental policy of national treatment to one of reciprocal national treatment. For example, the United States could consider imposing a subsidiary requirement on banks from countries that do not permit the establishment of branches by U.S. banks. This would affect only a limited number of countries, including Canada, Mexico, Norway, South Africa, and several other Latin American and Asian countries.

The threat that the United States might enforce such a sanction could be sufficient to cause the affected countries to permit entry by branches of U.S. banks. Alternatively, it might compel the country concerned to restrict further access by U.S. banks.

The EC Second Banking Directive also established an EC-wide policy of reciprocal national treatment, which authorizes negotiations with countries that do not provide effective market access comparable to that granted by the Community to credit institutions from a third country. In addition, sanctions are allowed to be imposed upon countries that do not grant national treatment. The Second Banking Directive required member states that did not have reciprocity provisions to adopt them. EC officials indicated that they may eventually seek negotiations with the United States because of disparities in the structure of our respective financial systems and perceived unequal opportunities for EC firms in U.S. financial markets.

III. REVIEW OF THE TREATMENT ACCORDED FOREIGN BANKS IN THE U.S. MARKET AND U.S. BANKS ABROAD

A. Foreign Banks in the U.S. Market

As of June 30, 1992, 309 foreign banks from 62 countries had 733 U.S. offices with assets totalling $861 billion, which constitute approximately 23 percent of all banking assets in the U.S. market. More than four-fifths of these assets are held in branches of foreign banks.

The IBA adopted the policy of national treatment, described as parity of treatment between foreign and domestic banks in like circumstances. The United States generally has adhered to such a policy. Exceptions are discussed in Chapter 1 of the 1990 National Treatment Study. Most notably, a minority of states still do not provide national treatment to foreign banks.[3] The 1990 Study acknowledges that denial of equality of competitive opportunity by states "undermines the International Banking Act's (IBA) policy of national treatment."[4]

The United States also has provided better than national treatment in specific cases to foreign banks. Although the IBA extended to branches and agencies of foreign banks restrictions similar to those applied to U.S. banks, the legislation also grandfathered existing U.S. activities of

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[3] Department of Treasury, 1990 National Treatment Study, pages 34-35.

[4] Another exception is the Primary Dealers Act of 1988, which established a limited policy of reciprocal national treatment for the granting of primary dealer status to foreign firms operating in the U.S. government securities market.

foreign banks.[5] Thus, seventeen foreign banks were permitted to retain ownership of their securities affiliates following passage of the IBA.

B. U.S. Banks in Foreign Markets

U.S. banks are active in a variety of international banking markets. In June 1992, 1,411 U.S. bank offices held $522.1 billion in foreign assets, of which 64 percent are held in foreign branches of U.S. banks.

The 1990 National Treatment Study, which was submitted to Congress by the Department of Treasury, provides detailed information regarding the treatment accorded U.S. banks in twenty-one foreign banking markets, including some in which "significant" denials of national treatment to U.S. banks remain. Most industrialized countries at present permit establishment of branch operations by foreign banks. U.S. banks are also permitted by foreign authorities to engage and compete in various activities abroad, even though they are not permitted to engage in such activities in the United States.

IV. ADVANTAGES AND DISADVANTAGES OF OPERATING THROUGH BRANCHES VERSUS SUBSIDIARIES IN THE UNITED STATES

This section reviews the various advantages and disadvantages of operating in the United States through a branch as compared to a subsidiary from the perspective of a parent foreign bank. As discussed below, the branch or subsidiary form

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[5] See the 1990 National Treatment Report, pages 34-37 for additional explanation.

of organization has implications for the amount and distribution of the capital of the bank, the management of its liquidity and funding, regulatory and administrative costs, and other factors, such as lending limits, that affect its competitive opportunities in certain markets. Some of the costs associated with organizational form are relatively fixed; others may vary with the size of the operation. The impact of lending limits and other constraints also depends upon the size of the U.S. operation relative to that of the parent foreign bank.

This analysis indicates there can be significant cost savings derived from the branch form of organization. A branch, as compared to a subsidiary, of a foreign bank would also appear to have greater opportunities in highly credit-sensitive wholesale markets. It should be emphasized, however, that additional factors also enter into a bank's decision on whether to pursue the branch or subsidiary form of organization. These factors generally involve the foreign bank's overall strategy and business plan. For example, the subsidiary form is usually chosen if the emphasis is on retail banking, which usually requires a number of offices. In this case, the foreign bank might choose to acquire an existing U.S. bank. The branch form of organization is often chosen if the foreign bank's focus is on wholesale banking, as is typically the focus of foreign banks in the United States.

The analysis set forth here would also apply to foreign banks should they be required to conduct banking operations in the United States through a subsidiary in order to engage in securities activities or interstate banking and branching.

A. Capital

1. Amount and Distribution of Capital

The branch versus subsidiary form of operation can affect the efficiency with which the capital of the banking organization is used. The branch form of operation enables the parent bank to deploy its capital flexibly to take advantage of changing profit opportunities in different markets. When competitive opportunities lead to an expansion of activities in the United States, say, the foreign parent can allocate additional capital internally to support this expansion. Should activities of the U.S. branch contract, the parent bank can reallocate this capital to support growth elsewhere in the parent bank organization.[6]

Under a subsidiary structure, capital resources cannot easily be redeployed to respond to changing market opportunities. A subsidiary will need to maintain total capital (tier 1 plus tier 2) equal to at least 8 percent of the subsidiary's risk-

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[6] In the United States federal or, in some cases, state authorities require asset pledges, a form of minimum capital requirement, from U.S. branches of foreign banks. For federally licensed branches, the Comptroller of the Currency requires a capital equivalency deposit to be maintained in a Federal Reserve member bank in the amount of 5 percent of the branch's third party liabilities. State banking authorities may call for asset maintenance requirements, which are satisfied with eligible assets on the books of the branch. Asset maintenance requirements are discussed in the section on Safety and Soundness.

weighted assets, at least half of which must be in the form of tier 1 capital.

Tier 1 capital consists mainly of shareholder's equity and retained earnings. Tier 2 capital may consist of perpetual preferred stock, hybrid capital instruments, subordinated debt (limited to 50 percent of the U.S. subsidiary's tier 1 capital), and loan loss reserves (limited after 1992 to 1.25 percent of the subsidiary's risk-weighted assets).[7] In practice, therefore, the tier 2 capital requirement generally involves the issuance of some capital instruments in addition to the parent's straight equity. If these are purchased by the parent, the effect on the parent's cash position is the same as a straight equity injection. The need for cash from the parent would be reduced to the extent the U.S. subsidiary could sell some of its subordinated debt in the market. A public sale of the subsidiary's debt, however, would usually be undertaken only with the guarantee of the foreign parent (which would reduce the parent organization's total borrowing capacity) in order to avoid paying a premium over the parent's cost of funds. In most cases, the parent would not wish to diminish its ownership interest in the U.S. subsidiary through the public sale of the subsidiary's equity or preferred stock.

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7 Parent banks in countries that permit undisclosed reserves, revaluation reserves, and latent revaluation reserves to count as tier 2 capital could not transfer portions of these reserves to the United States to satisfy tier 2 capital requirements of U.S. subsidiaries.

The required minimum capital for a subsidiary would also be expected to include an amount to accommodate future growth. The injection of new capital into a subsidiary involves satisfying legal and regulatory requirements in both the home and host country and often entails material tax and administrative costs.

2. Home Country Capital Requirements

A subsidiary form of operation may result in a higher overall regulatory capital requirement for the foreign banking organization as a whole. The host country may require the subsidiary to hold additional capital if the subsidiary, due to its small size, is unable to build up a fully diversified portfolio of risk. The home supervisor could also decide to disallow from consolidated capital any portion of the U.S. subsidiary's capital that is not subordinated to the depositors and general creditors of the parent bank.

A number of supervisors, including U.S. supervisors, assess capital adequacy on an unconsolidated (solo), as well as a consolidated, basis; i.e., the capital in a U.S. subsidiary would not qualify as capital of the parent for certain supervisory purposes. A low level of capital as measured on an unconsolidated basis could trigger a supervisory response.

B. Liquidity and Funding

For the reasons given below, a subsidiary form of organization is likely to increase the cost of wholesale funding, reduce the availability of interbank credit lines, and decrease flexibility in the management of liquidity. However, the subsidiary structure may increase access to core retail deposits.

1. Wholesale Funding

A bank's ability to sell large denomination CDs depends crucially on its credit standing, which depends, in turn, on its size and financial strength, including capital. Because a branch is an integral part of the parent, a branch's access to these markets is virtually the same as that of the parent bank. A subsidiary is a separate legal entity and has to operate in the market on its own strength, unless it is supported by a formal guarantee from the parent. In most cases, a subsidiary's credit standing is inferior to that of its parent, which diminishes its access to wholesale funding sources or increases the cost of such funds.[8] This differential for a subsidiary as compared with a branch is often accentuated during periods of market unrest or illiquidity.

2. Interbank Credit Lines

Similarly, the cost of and access to interbank credit lines also depend crucially on the credit standing of a bank. For the reasons given above, a branch's access to interbank lines on the strength of its parent is usually greater than is available to a subsidiary of the bank. A subsidiary must generally pay more than the parent bank or its direct branches

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[8] A subsidiary would also have to pay insurance premiums on assessable deposits, which would erode its competitiveness in raising funds in the U.S. market for large denomination CDs. See separate paper on deposit insurance implications.)

for interbank credit and the subsidiary's lines are not as large. A subsidiary's funding possibilities compared to those of a branch may also tend to narrow further during periods of market uncertainty or illiquidity. Liquidity support may also be provided to branches, subsidiaries, or the parent bank through possible access to central bank discount window credit in either the home or host country.

3. Funding Flexibility and Liquidity Management

Under a branch form of operation, the parent bank can pursue a centralized approach to liquidity management. An important consideration for some parent banks is the extent to which its U.S. operations can be used to meet its overall dollar funding needs. A U.S. branch can either be heavily supported by funds from the parent bank (a "net due to" parent position) or, alternatively, the U.S. branch can be a funding source for the parent (a "net due from" parent position).

Under a subsidiary structure, funding must be conducted for the primary benefit of the subsidiary and not of the parent. A subsidiary will be expected to establish its own liquidity management guidelines and meet its own liquidity needs, both under normal and adverse conditions. This could increase funding costs and would reduce funding flexibility for the parent bank.

Banking supervisors in the United States (as well as in most other countries) impose restrictions on the advancement of funds by a subsidiary to its parent or other affiliates (discussed below under C.3.). As a consequence, in operating through subsidiaries the parent bank loses flexibility in the management of liquidity, especially dollar liquidity, for the organization as a whole.

4. Retail Deposits

With the passage of FDICIA, foreign banks desiring to raise retail deposits in the U.S. must do so as an insured subsidiary, although previously existing FDIC-insured branches are grandfathered. The importance of core retail deposits to the overall liquidity management and profile of a parent bank will vary, depending on such factors as the bank's strategy and position in other markets.

C. Activities in the U.S.

1. Limits on Loans to a Single Borrower

A subsidiary's legal lending limit would be based on its capital and surplus, rather than that of its parent foreign bank as would be the case for a branch. For a national bank, this lending limit is 15 percent of the bank's unimpaired capital and surplus for loans that are not fully secured, with another 10 percent permitted if secured by readily marketable collateral. State banks are also subject to legal lending limits based on capital, which vary by state but are generally similar to those that apply to national banks.

The capital of subsidiaries is usually small compared to the capital of the parent, and the capital-related limit on loans to one borrower would likely prevent the U.S. subsidiaries of foreign banks from competing for large loans in the U.S.

corporate sector. The subsidiaries could transfer loans to their parents but often at increased cost or with possible adverse tax consequences (see separate paper on tax implications).

2. Trading and Risk-Management Activities

U.S. branches of foreign banks engage in foreign exchange, credit enhancement, and over-the-counter derivative products, such as swaps, forwards, and options, largely on the strength of their parent organizations. Of the "large" banking participants in the U.S. foreign exchange market, as indicated on the monthly consolidated foreign currency report of banks in the United States, 87 are foreign banks, of which 85 conduct these operations through a branch or agency and only two through a U.S. subsidiary bank.[9] The counterparties in these transactions, which are generally other major international banks, are highly credit sensitive and know the branch's commitment is backed by its parent institution. A U.S. subsidiary would generally not be able to participate in these markets as extensively as a branch unless the foreign parent formally guaranteed its activities. Parent guarantees have cost consequences, however, such as raising the parent's required capital or reducing its overall borrowing power.

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[9] The FFIEC 035 foreign currency report is required from U.S. chartered banks, bank holding companies, Edge corporations, and U.S. branches and agencies that report more than $1 billion in commitments to purchase foreign exchange. There are 122 respondents to the 035 Report, of which 35 are U.S. owned banks and 87 are foreign owned or controlled.

3. Restrictions on Transactions With Affiliates

Since a U.S. subsidiary bank of a foreign bank is a separately chartered bank, transactions between the subsidiary and the parent bank must be carried out on an "arm's length" basis, which means that such transactions must be treated as if the parent and the subsidiary were not under common ownership. As a result, such transactions may have tax consequences and other costs that would not arise in the case of internal transactions between a parent and a branch.

Section 23A of the Federal Reserve Act, which limits quantitatively the financial transactions between insured banks and their affiliates and requires that such transactions be collateralized, would apply to the U.S. subsidiary of a foreign bank. For example, credit extensions, advances, purchases of assets, or investments in a single affiliate of an insured bank are limited to 10 percent of the bank's equity capital. Other transactions included in the limit are guarantees issued on behalf of an affiliate and the acceptance of an affiliate's securities as collateral for any loan. The total of such credit extensions, investments, and other transactions involving all affiliates is limited to 20 percent of equity capital.

The 23A restrictions on extensions of credit to affiliates, including any intra-day and overnight extensions of credit (even if fully collateralized), would severely hamper a U.S. subsidiary bank of a foreign bank in serving as a funding center for its parent or in providing clearing services for the parent and other affiliates. Such activities are currently important functions of U.S. branches of foreign banks.

In some cases, exceptions to the 23(a) restrictions have been made to accommodate extensions of credit incidental to clearing services, as in the case of domestic Section 20 subsidiaries.[10] The cost of collateralizing such credit extensions, however, would erode the competitiveness of a U.S. subsidiary bank of a foreign bank in this area of activity.

D. Regulatory and Legal Costs

The establishment of a subsidiary usually entails greater costs than that generally associated with the establishment of a branch because a subsidiary requires a separate board of directors and management structure, its own system of credit administration and internal controls, and additional legal documentation.

1. Board of Directors and Management Structure

A U.S. branch needs an approved branch manager and other staff as appropriate. A U.S. subsidiary, however, is required to be "self-contained," that is a complete stand-alone entity, and generally must have a complete management staff. There is no separate board of directors for a branch, but a number of requirements apply to directors of national banks. Similar requirements generally apply to state chartered banks.

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[10] See paragraph 21(b) of the 28 firewall conditions (Board Order dated January 18, 1989).

National bank directors normally need to be U.S. citizens, though the Comptroller of the Currency may waive this requirement for not more than a minority of the total number of directors in the case of foreign bank subsidiaries. At least two-thirds of the directors are also subject to other residency requirements. These requirements increase the costs of a subsidiary, whereas for a branch the foreign bank's head office may undertake many functions on its behalf, including planning and logistical support.

2. Credit Administration and Internal Controls

A U.S. branch needs to maintain adequate credit files, have adequate internal controls (which may be largely provided by head office), and maintain its records in English.

In addition to the requirements for a branch, a U.S. subsidiary will often have its own, separate credit administration and support and control systems, which will also add to its costs.

3. Legal Documentation

For U.S. branches, legal documentation is limited to that necessary to gain approval for establishment of the branch in the United States. Minimal legal documentation is required for most transactions between the branch and its parent (or other affiliates). A subsidiary, however, is separately incorporated and must obtain a national or state banking charter. In addition, the subsidiary is likely to be subject to ongoing legal documentation requirements with regard to transactions with its affiliates, which would not arise in the case of transactions between a branch and the parent or other branches of the parent.

V. INTERNATIONAL IMPLICATIONS OF A SUBSIDIARY REQUIREMENT

This subsection examines the international implications of a U.S. requirement that foreign banks roll-up their banking operations in the United States into separate subsidiaries, if such requirements were applied: (1) across-the-board to all foreign banking operations in the United States; or (2) only to those foreign banks that wished to avail themselves of new banking powers in the event that new powers are granted to U.S. banks.

A. Subsidiary Requirement Imposed upon all Foreign Banking Operations

Introduction of a subsidiary requirement by the United States for all foreign banking operations would necessitate a major restructuring of such operations in view of the preference exhibited to date by foreign banks for the branch form of organization for their U.S. operations. As discussed above, U.S. branches of foreign banks account for more than four-fifths of all U.S. assets held by foreign banks.

Adoption of a subsidiary requirement for all commercial bank activities would reduce the efficiency and competitiveness of international banking markets and thereby decrease the welfare of consumers. Beyond achieving equality of competitive opportunity for foreign and domestic banks, a fundamental purpose of a policy of national treatment is to provide consumers of financial services in a host country with access to as deep, varied, competitive and efficient a banking market as possible. In other words, a policy of national treatment for foreign banking institutions helps to assure that a host country market is one in which individuals, businesses, and also public sector entities can satisfy their financial needs on the best possible terms.

Introduction of an unqualified subsidiary requirement by foreign countries could also have a substantial adverse impact on U.S. banks, which rely heavily on the branch form of organization for their activities abroad. As discussed above, foreign branches of U.S. banks account for two-thirds of all foreign assets held by U.S. banks. Indeed, branches are by far the preferred form of organization for the conduct of U.S. banking operations abroad. A subsidiary requirement could jeopardize U.S. banks' existing foreign branches by establishing a model to be followed by foreign governments in their own markets, and similarly frustrate future efforts by U.S. banks to establish operations abroad in new markets that could be important to the banks' longer-term competitive position. This possibility is particularly acute in those countries that have a reciprocal national treatment standard. (For further discussion of these issues, see separate paper on Factor 7 -- Implications for International Negotiations for Liberalized Trade in Financial Services.)

In addition, at present, U.S. banks are permitted by foreign authorities to engage and compete in various activities abroad, even though they are not permitted to engage in such activities in the United States. Foreign authorities could also choose to reconsider such favorable treatment in the light of the imposition of a subsidiary requirement.

Such a wide-ranging subsidiary requirement would also undermine longstanding U.S. efforts to encourage countries such as Canada to drop their own subsidiary requirements. In addition, it might encourage other countries to introduce such requirements. At present, most industrialized countries do not have requirements prohibiting the establishment of branch operations by foreign banks.

The motivation for an across-the-board subsidiary requirement would also be inconsistent with the framework adopted by the Basle Committee of Banking Supervisors, which recognizes that banks operate internationally through branches and which consequently has sought to strengthen the supervision exercised over branches of foreign banks by stressing the primary role and responsibilities of the home country (i.e., the country of incorporation of the foreign bank) supervisor, as well as host country responsibilities. Neither Treasury nor the Federal Reserve Board believe that such an unqualified subsidiary requirement is warranted.

B. Subsidiary Requirement Imposed in Connection with New Powers

The question has also been raised as to whether a subsidiary requirement should be imposed with regard to the banking operations of foreign banks in the United States if U.S. banking organizations are granted new powers to engage through separately incorporated subsidiaries in securities activities or interstate banking and branching.[11] Under this type of approach, only those foreign banks that wished to avail themselves of the expanded powers would be required to restructure their branch operations into subsidiary form.

The Administration's 1991 financial modernization proposal,[12] which ultimately was not enacted, was broadly along these lines. Under this proposal, new powers would have been authorized to those U.S. financial services holding companies with "well-capitalized" banks. Foreign banks that wished to obtain expanded powers (which under the 1991 proposal included securities and insurance activities) were required to "roll-up" all existing branch and agency operations into one or more well-capitalized U.S. bank subsidiaries of a financial services holding company.

Supporters of this proposal believed that the "roll-up" requirement assured that domestic banks would not be placed at a competitive disadvantage in their own market. They maintained that the proposal would have assured that the same capital, accounting, regulatory and supervisory requirements (as well as

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[11] Neither the Treasury nor the Board believe a subsidiary requirement should be imposed in connection with expanded powers with regard to interstate activities.

[12] The Financial Institutions Safety and Consumer Act of 1991 (FISCCA).

domestic firewalls) would be imposed on foreign and domestic banking organizations that wished to engage in expanded powers. No foreign bank would have been required to "roll-up"; each foreign bank could make a decision based on its own corporate strategy and preference. Foreign banks that did not desire expanded powers in the United States could continue to conduct their banking operations in branches.

Opponents of the 1991 roll-up proposal believed that existing regulatory authority was sufficient to assure that foreign banks seeking to establish operations in the United States would have to meet the same general standards of financial strength, including capital, experience and reputation as required for domestic institutions. The mandatory roll-up of branches of foreign banks seeking expanded powers was considered to be an unnecessary requirement, which would have had undesirable consequences. First, the proposed roll-up requirement would have jeopardized the continued willingness of foreign banks to maintain a U.S. banking presence, thereby potentially removing an important source of credit for U.S. borrowers. Second, the roll-up of branches of foreign banks in this country could have led to similar requirements for U.S. banks abroad. This was not considered to be in the long-term interest of U.S. bank competitiveness, in view of the reliance placed by U.S. banks upon the branch form of organization in their operations abroad.

It is agreed that, under a limited subsidiary requirement, foreign banks that did not wish to take advantage of the expanded powers could have continued to operate in the United States through branches. However, those foreign banks that did wish to engage in the expanded activities would have been denied the advantages associated with branch operations, including access to their worldwide capital, which are discussed in section IV. above.

Since the 1991 financial reform proposals were introduced, adoption of the Foreign Bank Supervision Enhancement Act ("FBSEA") has strengthened the regulators' authority to assure that untoward actions do not jeopardize the safety and soundness of the financial system. In addition, application of the guidelines established in the Report on Capital Equivalency, which reinforced existing regulatory practice, helps assure that U.S. banks will not be placed at a competitive disadvantage in their own market. The findings of the joint annual updates on capital equivalency required by Section 214(b) of FBSEA also provide an opportunity for continuous review of this objective. Finally, FBSEA requires that the Board in consultation with Treasury, establish criteria for banks from countries that do not provide comprehensive supervision on a consolidated basis.

The EC's Second Banking Directive (the "Directive"), which must be implemented by member states by no later than January 1993, has been put forward as one example of treatment of U.S. banks abroad that might serve as a precedent for imposing a subsidiary requirement on the U.S. banking operations of foreign banks in connection with the availability of new powers. The Directive allows banks incorporated in the Community, including bank subsidiaries of foreign banks, to establish branches or provide services throughout the Community, based upon the authorization and supervision by its home, rather than the host, country.

It has been suggested that the Directive parallels a U.S. subsidiary requirement imposed in connection with the grant of new powers because it requires establishment of a subsidiary to take advantage of the single banking license. Some have complained that the program of liberalization under the Directive does not apply to EC branches of U.S. banks. A brief description of the Directive and the operation and effect of its provisions is provided below.

Under the Directive, a host Member State in general will no longer have a role in the licensing or day-to-day supervision of branches of banks from other Member States and will not be able to limit the number of branches that may be established or to impose endowment capital requirements. The Directive also establishes a list of permissible activities that, if authorized by a bank's home country, may be offered anywhere in the EC even if the host country does not permit its banks to carry on such activities.

The EC's reliance upon home-country rules and home-country administration of those rules in the creation of a single market is predicated on harmonization among Member States of "essential" national rules pertaining, inter alia, to banking and financial services. In two major respects, this harmonization exercise goes far beyond what the major industrial countries have accomplished through any forum for cooperation, including the Basle Committee on Banking Supervision and the OECD.

First, the harmonizing measures with regard to financial services, which are directed to the creation of a single market, are much broader than the general minimum standards agreed in Basle and encompass other areas besides supervisory standards, e.g., matters relating to corporate law, bank ownership of nonfinancial institutions, initial capital requirements, provisions relating to major shareholders and changes in share ownership, bank and branch accounts, and, in future, deposit insurance and perhaps reorganization and liquidation. Second, the EC harmonizing measures are not just voluntary agreements; instead, they are legally binding as part of the body of Community law, which is supreme over national laws and constitutions.

The Second Banking Directive does not directly address the treatment of branches of banks from the United States and other non-EC countries. Because such branches are not incorporated in an EC Member State, are not subject to the EC's harmonization of essential rules, and do not have an EC Member State as a sponsoring home-country authority, foreign banks operating in a Member State only through branches are not eligible under the Directive to establish branches or provide services throughout the Community. That is, to receive the full benefits associated with the EC passport, a foreign bank will need to have an EC subsidiary.

The Directive does not prohibit foreign banks from establishing or maintaining both subsidiaries and direct branches. However, foreign bank branches will continue to be subject to approval by the individual EC Member States in accordance with the First Banking Directive.

There are, therefore, similarities and differences between a proposal to impose a subsidiary requirement upon foreign banks' operations in the United States in connection with the grant of new powers and the treatment accorded foreign banks under the Directive. One similarity is that, albeit in very different circumstances and for different reasons, under each program, foreign banks would be required to establish local subsidiaries to avail themselves of different types of market liberalization (namely, the removal of national boundaries in relation to the provision of banking and financial services in the EC[13] and the expansion of permissible activities in United States). Local subsidiaries, of course, do not have access to the worldwide capital of their parents.

The primary difference between the two programs is that, unlike the Administration's 1991 proposal, the EC Second

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[13] In contrast, the Administration's 1991 proposal would not have required establishment of a subsidiary to branch on an interstate basis.

Banking Directive does not require that third country banks terminate their EC branch activities in order either to benefit from the passport and liberalization that is provided in the Directive or to establish nonbanking subsidiaries.[14]

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[14] As noted above, each Member State may set its own policies with regard to branches of foreign banks. As discussed further above and in the separate paper regarding Factor 6 - Safety and Soundness, to the extent that individual Member States (such as Germany) impose dotation capital requirements (which require capital to be held in the host country) or other restrictions upon the operations of branches of foreign banks, the benefits of branch operations are significantly reduced.

INTERNATIONAL NEGOTIATIONS FOR LIBERALIZED TRADE (FACTOR 7)

APPENDIX D

INTERNATIONAL NEGOTIATIONS FOR LIBERALIZED TRADE (FACTOR 7)

The effect of a subsidiary requirement on international agreements, international negotiations and U.S. bank access to foreign markets is an important factor in analyzing such a requirement. This section specifically addresses the implications a subsidiary requirement would have from two perspectives: 1) international agreements governing financial services issues, including those currently under negotiation or awaiting approval; and 2) bilateral financial market discussions.

Since World War II, the United States has pursued a strategy aimed at achieving open international markets. The view that open markets promote the welfare of all countries has been the driving force behind multilateral and bilateral negotiations to achieve freer trade in goods or services and a more liberal international investment environment.

Over the last fifteen years, negotiations on financial services issues have become an important part of U.S. international economic policy. Treasury Department and other U.S. officials have sought to open financial markets in treaty negotiations, bilateral and multilateral trade agreements, and a variety of other fora.

The goals of the United States in its financial services negotiations have been national treatment and market access for U.S. financial firms. More specifically, the United

States has pursued a policy of national treatment that includes equality of competitive opportunity, the objective of which has been to ensure that other countries' laws and practices do not disadvantage U.S. financial institutions in their ability to compete. In return, the United States has adopted a general policy of national treatment towards foreign financial institutions.

These goals, where achieved, allow U.S. firms to bring their comparative advantage in financial services to foreign markets, thus providing profits and jobs for the U.S. financial services industry and adding to the country's wealth.

This section first examines the legal rules that have been agreed or are being negotiated to govern international banking. The existing legal agreements analyzed are: 1) Friendship Commerce and Navigation Treaties and Bilateral Investment Treaties; 2) the Code of Liberalization of Capital Movements and the Code of Liberalization of Movements of Current and Invisible Transactions negotiated under the auspices of the Organization for Economic Co-operation and Development; and 3) the Canada -- United States Free Trade Agreement.

Proposed future international agreements such as the North American Free Trade Agreement and the Uruguay Round Agreement on Financial Services are also examined, as are bilateral financial policy discussions between the United States and other countries.

A. International Agreements Governing Financial Services

1. Treaties

The United States has negotiated a network of more than fifty bilateral Friendship, Commerce and Navigation Treaties (FCNs) and Bilateral Investment Treaties (BITs) with various trading partners, including France, Germany, Italy, Japan and Korea. These treaties generally impose three obligations in the banking sector:

(1) a country may not impose new limitations on national treatment of existing operations of foreign banks, with national treatment defined as treatment in a particular state that is no less favorable than that provided in that state to banks located in another state;

(2) foreign banks must be granted "the right to maintain branches and agencies to perform functions necessary for essentially international operations in which they are permitted to engage"[1]; and

(3) most-favored-nation (MFN) treatment must be accorded in all respects (e.g., Japanese banks are entitled to no less favorable treatment by U.S. authorities than German banks).

The first of these obligations permits violations of national treatment as long as existing firms are not affected. This obligation would not appear to be violated by a subsidiary requirement imposed on foreign banks because the FCNs and BITs adopt a special definition of national treatment that measures treatment of foreign firms in a particular state with U.S. firms established in <u>other</u> states. Because branching across state lines is generally prohibited in the United States under the McFadden Act, 12 U.S.C. § 36, and the Federal Reserve Act,

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[1] This obligation is contained only in FCN treaties.

12 U.S.C. § 321, national treatment defined in this way would not include the right of a foreign bank to branch under these treaties. Based on this rule, it would appear that a subsidiary requirement imposed on existing or future operations of a foreign bank branch or agency would not be inconsistent with the prohibition against new departures from national treatment.

A subsidiary requirement for all foreign banks in the United States would, however, raise an issue with respect to the second basic banking obligation in the FCNs (this obligation is not present in BITs). This obligation requires that foreign banks be permitted to maintain branches and agencies if a signatory to an FCN permits foreign banks to engage in international banking business in its territory. The term "international banking business" refers to activities such as foreign exchange services, lending services and other banking services incidental to international business, such as that permitted to Edge corporations under the Federal Reserve Act, and limited branches under the International Banking Act. A subsidiary requirement for all foreign banking operations in the United States would appear to be inconsistent with this requirement.

Finally, a subsidiary requirement imposed under a reciprocity statute would be inconsistent with the MFN obligation of the FCNs and BITs. MFN treatment requires the banks of a signatory to an FCN or BIT to be treated no less favorably than any other country's banks. If use of a reciprocity test resulted in the banks of a signatory to an FCN or BIT being forced to "roll-up," that country would have a claim under its treaty with the United States.

A violation of a treaty would permit the country harmed to proceed in an agreed international forum (e.g., the International Court of Justice) against the offending country or take other actions permissible under international law. Such actions could include retaliation against the firms of the country that took the action inconsistent with the treaty.

2. OECD Codes of Liberalization

The Organization for Economic Co-operation and Development (OECD) is an organization of 24 industrialized countries that includes many of the major trading partners of the United States. The members of the OECD have entered into two agreements governing financial services and other business sectors: the Code of Liberalization of Capital Movements (the Capital Code) and the Code of Liberalization of Current Invisible Operations (the Invisible Code). The Capital Code governs direct and portfolio investment in financial services. The Invisible Code deals with, among other things, treatment of established bank branches.

Under the Capital Code, each country is required to permit "investment for the purpose of establishing lasting economic relations . . . by means of . . . creation or extension of a wholly-owned enterprise, subsidiary or branch . . . ." Countries cannot apply conditions "that raise special barriers or limitations with respect to non-resident (as compared to resident) investors, and that have the intent or the effect of preventing or significantly impeding inward direct investment by non-residents." OECD Capital Code, art. 2(a) & item I.A.

The OECD Members' interpretation of the Capital Code indicates that restrictions on the right to invest in branch form would be inconsistent with the Code. The interpretation has developed in the periodic examinations conducted by the OECD of individual members' markets, and on interpretation by the Secretariat of the OECD. Any definitive legal analysis based on the plain language of the Code would require an analysis of many of the factors identified in the national treatment/competitive equity section of this study to determine whether special barriers are raised to foreign investment through a subsidiary requirement.

A subsidiary requirement would also appear to be inconsistent with the Invisible Code, which requires "equivalent" treatment of bank branches. Section 214 of the Federal Deposit Insurance Corporation Improvement Act of 1991 requires all new insured deposit-taking activities of foreign banks to occur through subsidiaries, and not also direct branches as was previously the case. The United States lodged a reservation to the Invisible Code to account for this restriction. Normally reservations are limited to existing non-conforming measures, but the Invisible Code was in the process of amendment at the time FDICIA was passed and the United States was permitted to take a reservation. The time for lodging new reservations is now closed; therefore, further restrictions on foreign bank branches may be inconsistent with the Invisible Code.

The formal sanction procedure for violations of the Codes would be referral to the OECD Council -- the political level decision-making body of the OECD -- for consideration of appropriate action. The OECD Council works by consensus; consequently, it is unlikely sanctions would be authorized. Indeed, various OECD members have taken action in the past that is inconsistent with the OECD Codes with no sanctions or retaliation having been sought. For example, when the EC adopted its Second Banking Directive, the reciprocity test contained in Article VII of the Directive was inconsistent with the commitment of OECD members not to adopt any new reciprocity statutes in their financial laws. Nevertheless, a subsidiary requirement that is inconsistent with Code obligations would undermine the integrity of the agreements and damage possibilities for further liberalization under the Codes.

3. The Canadian Free Trade Agreement and the North American Free Trade Agreement

In 1989, the Canada -- United States Free Trade Agreement (the CFTA) entered into force. The CFTA contained a number of specific commitments on treatment of Canadian bank subsidiaries in the United States, but only one regarding Canadian bank branches. No other protection was afforded

Canadian bank branches in the FTA because Canada refused to provide U.S. banks the right to branch into Canada at all.

The one obligation applicable to foreign bank branches -- Article 1702(2) -- concerned certain interstate branches of Canadian banks permitted to operate under section 5 of the International Banking Act of 1978 (IBA). Before the IBA was passed, foreign banks were permitted to establish full-service branches in more than one state as long as individual states permitted such branches. In other words, interstate branching restrictions did not apply to direct branches of foreign banks.

After 1978, the interstate branching prohibitions were applied to all foreign banks. In order to protect acquired rights, however, the established branches of foreign banks were "grandfathered." The CFTA guaranteed these grandfather rights for Canadian banks permanently under Article 1702(2). Thus, a subsidiary requirement imposed on the interstate branch offices of Canadian banks which existed at the time of the CFTA could violate the grandfathering provisions of that agreement.

It should be noted that legal sanctions are not specifically authorized under the CFTA for a breach of the financial services obligations. However, the recently negotiated Financial Services Chapter of the North American Free Trade Agreement will incorporate the specific grandfathering provision of the CFTA. When this Agreement enters into force, it will provide a dispute settlement mechanism for breaches of the grandfathering commitment.

In June 1991, the United States began formal negotiations with Canada and Mexico on a North American Free Trade Agreement (NAFTA). The NAFTA provided an opportunity to expand upon the legal commitments made in the CFTA. A major negotiating objective of the United States in the NAFTA negotiations was obtaining the right to branch into Canada and Mexico. This objective was not achieved partly due to the Canadian and Mexican perception of a lack of equivalent market access in the U.S. financial services market. As a result, the NAFTA provides each country the right to require incorporation of financial institutions under its laws, that is, the right to require operation through a subsidiary.

At present, Canada prohibits direct branches of foreign banks into its territory and is permitted to continue to do so under the terms of the NAFTA. Mexico presently permits Citibank to operate in branch form, but has not authorized any other foreign bank to enter Mexico in this form. Mexico has indicated it will permit U.S. banks to enter only in subsidiary form under the liberalization negotiated under the NAFTA.

The Parties to the NAFTA have also agreed, however, that when the United States permits interstate bank branching in its market, the NAFTA Parties will negotiate with a view toward permitting NAFTA-wide branching by NAFTA banks. The imposition of a subsidiary requirement in the United States prior to such negotiations would have a negative impact on such future negotiations and almost certainly result in Mexico and Canada refusing to allow direct branching in the future.

4. Uruguay Round ("UR") Services Agreement

A requirement that all foreign banks conduct banking operations in the United States through subsidiaries could require reservations to the market access commitments of the United States under the Services Agreement and would be inconsistent with U.S. objectives in the Uruguay Round.

a. U.S. Objectives in the Round

A major objective of the United States in the UR has been to obtain commitments that insure U.S. banks can establish and operate effectively in foreign countries. As part of this effort, U.S. officials have sought guarantees that U.S. banks will have the option of entering and operating either as branches or subsidiaries. This objective has already been hampered by recent U.S. legislation requiring that new insured deposit-taking operations take place through subsidiaries.

Enactment of a subsidiary requirement with wider effect would further erode, if not eliminate entirely, the ability of U.S. negotiators to support U.S. banks in their desire to operate as branches abroad. United States negotiators would not be able to argue credibly that other countries should commit to allow entry in branch form if the United States did not.

The use or threat of a subsidiary requirement might be argued to enhance U.S. leverage in financial services talks by being "traded off" to obtain commitments to remove similar measures in other countries. Such a strategy, however, would risk causing the major trading partners of the United States to propose subsidiary requirements or take other adverse actions against U.S. banks abroad in the context of the negotiation. In this regard, the members of the European Community and most other developed countries already permit foreign banks to operate as branches in their territory. As of October 1992, they were prepared to legally guarantee continuation of this practice in the UR.

As noted above, the United States has been seeking in the UR negotiations the elimination of existing prohibitions on branch banking. The extent to which this effort will be successful is unclear. On a more fundamental plane, it is also unclear whether the Round negotiations will produce sufficient liberalization in the financial services area to enable a U.S. commitment to legally guarantee continuation of the present liberal treatment of financial institutions from countries which refuse to liberalize.

The United States has indicated, that if adequate commitments by other countries in the financial services sector were not forthcoming, the United States would be unable to agree to most-favored-nation (MFN) treatment in this sector. Such an MFN exemption would enable the U.S. to exercise selective leverage to achieve liberalization in future bilateral or multilateral negotiations. Such leverage could include a subsidiary requirement where U.S. banks do not receive reciprocal treatment.

b. Provisions of the Agreement

Article XVI ("Market Access") of the Services Agreement provides that any Party undertaking commitments in service sectors shall not maintain restrictions on the specific types of legal entities or joint ventures through which a service supplier provides a service, unless such restrictions are reserved. Where no restrictions are inscribed in a Party's schedule of commitments, a Party would be obligated to permit a foreign bank, which otherwise met its prudential requirements, to create or maintain a commercial presence as a branch.

Countries can choose to undertake commitments in financial services with reference to the "Understanding on Commitments in Financial Services" (the "Understanding"). This document is composed of a series of commitments that form an integral part of the draft Services Agreement, although the relationship to Article XVI remains to be determined. (In many areas, the Understanding provides greater or more detailed obligations.) With respect to the "commercial presence" aspect of its market access provisions, the Understanding provides that each Party shall grant financial service providers the right to establish or expand a commercial presence, including branches. In its most recent proposed offer, the United States scheduled its commitments to market access with respect to the

Understanding's market access provisions rather than those of Article XVI.

Under either Article XVI or the Understanding, the U.S. would have certain obligations, subject to reservations, to permit other Parties to operate through branches. Measures may be reserved under both Article XVI and the Understanding, although the latter permits reservations only of existing non-conforming measures. As a practical matter, reservations taken by a country entail a cost, in the form of other countries either taking reservations or refusing to remove restrictions which the U.S. has sought.

B. Bilateral Financial Market Negotiations

Bilateral financial services negotiations have been conducted by the United States for several years with Japan, Korea and Taiwan. The issue of subsidiaries versus branches has not arisen in these negotiations, since in all cases U.S. banks are able to establish in their preferred form as branches. However, other kinds of restrictions on U.S. banks do exist in these markets, including the inability to establish as subsidiaries in two countries and restrictions on the type and scope of operations in all three.

The impact on these negotiations of imposition by the U.S. of a subsidiary requirement on the banks of these countries is an open question. It could be that the possibility of doing so on a selective basis would serve as a lever in obtaining concessions on behalf of U.S. banks. Since currently the banks of these countries enjoy greater access in most respects in the United States than U.S. banks enjoy in the respective countries, the potential imposition of a U.S. subsidiary requirement might provide an element of leverage in the negotiations. However, it is likely that the imposition of an across-the-board subsidiary requirement for all foreign banks would be met with greater reluctance to liberalize or even with retaliatory restrictions.

C. Summary

A subsidiary requirement imposed on all foreign banks would raise legal issues under the OECD Codes for all branches, and the CFTA with respect to operations of the Canadian IBA-grandfathered interstate branches that existed in 1987. In addition, a subsidiary requirement would appear to be inconsistent with the OECD Codes and the FCNS where imposed on all operations of foreign banks in the United States.

Under the NAFTA a subsidiary requirement would be permissible but would significantly reduce the possibility that U.S. banks could achieve branching rights into Mexico and Canada at a future date despite the further arrangement for future liberalization in the NAFTA with respect to branching.

Under the Uruguay Round a subsidiary requirement could necessitate reservations by the United States and would likely adversely affect negotiations with developed countries to guarantee branching rights of U.S. banks abroad that already exist. A subsidiary requirement would only be useful as a selective measure to deal with countries that did not make sufficient commitments in the Round.

In other bilateral negotiations, the effect of a subsidiary requirement appears to be an open question. While such a requirement could tend to discourage further efforts to liberalize in these markets, it is also possible that the selective imposition of a subsidiary requirement might serve as leverage for further liberalization.

APPENDIX E

OTHER IMPORTANT IMPLICATIONS

THE NEED TO PROHIBIT MONEY LAUNDERING AND ILLEGAL PAYMENTS (FACTOR 5)

APPENDIX E

THE NEED TO PROHIBIT MONEY LAUNDERING AND ILLEGAL PAYMENTS (FACTOR 5)

I. SUMMARY AND CONCLUSIONS

All foreign banks doing business in the United States, regardless of form, are subject to the Bank Secrecy Act ("BSA").[1] The ability of regulatory and law enforcement officials to assess and ensure compliance with the BSA and to detect and prosecute money laundering is not affected materially by the form in which a foreign bank has chosen to do business in the United States.

II. ANALYSIS

Money laundering is defined as "the process whereby one conceals the existence, illegal source, or illegal application of income, and then disguises that income to make it appear legitimate."[2] Activities that would generate such income include drug trafficking, the criminal attempt to avoid paying taxes or a combination of both. Money laundering may be accomplished

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[1] The two titles of Pub. L. 91-508, 84 Stat. 1114 (Oct. 26, 1970), are commonly known as the Bank Secrecy Act. Title I, the Currency and Foreign Transactions Reporting Act, as amended, has been codified at 31 U.S.C. §§5311-26. Title II is codified at 12 U.S.C. §§1829b and 1951-59. The BSA sets forth the currency reporting and recordkeeping requirements for banks and other financial institutions. It has evolved into the major anti-money laundering legislation aimed at the activities of banks.

[2] President's Commission on Organized Crime, Interim Report to the President and the Attorney General, The Cash Connection: Organized Crime, Financial Institutions, and Money Laundering 7 (1984).

through financial institutions using transactions that are no different from transactions normally associated with legitimate commercial or personal financial activities. Whether money laundering occurs through the U.S. branch of a foreign bank or through a subsidiary bank incorporated in the United States, the techniques are the same. These techniques can be very simple, such as exchanging cash for a cashier's check, or very complex, such as schemes involving one or more shell corporations, accounts in offshore banking centers and multiple wire transfers.

The BSA was enacted in 1970 and subsequently amended in an attempt to prevent financial institutions from being used in the money laundering process. The BSA requires all domestic financial institutions, including U.S. offices of foreign banks,[3] to maintain records of transactions and accounts of their customers and to report to the government certain types of transactions that are of particular interest to regulatory and law enforcement agencies. The BSA covers four major areas of financial activity requiring reporting or recordkeeping:

- maintenance of records concerning customers and transactions, including retention of signature cards and checks, and maintenance of ledgers and transaction records;

[3] 12 U.S.C. §§1829b, 1953; 31 U.S.C. §§5313, 5316, 5318(a)(2).

- reporting of all currency transactions involving cash in amounts exceeding $10,000 (or deliberately structured in smaller dollar amounts to evade the $10,000 threshold) (on a form known as a "CTR");
- reporting by any person who transports or causes another to transport monetary instruments (defined as cash or bearer negotiable instruments) exceeding $10,000 or who receives such instruments in the same amount in the United States from abroad (on a form known as a "CMIR"); and
- annual reporting by a person over whom the United States has jurisdiction of any interests in foreign accounts valued in excess of $10,000 (on a form known as an "FBAR").

The BSA currently does not require reporting with respect to funds transfers and there are no plans to impose such requirements.[4]

BSA enforcement resides in the first instance with the Secretary of the Treasury. The Secretary has delegated authority

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[4] A funds transfer involves the movement of debits or credits from one financial institution to another. Funds transfers may be made between domestic banks, including U.S. branches of foreign banks, by means of clearing houses established by banks within one locale, by Fedwire (the funds transfer system operated by the Federal Reserve System), or by transfers among correspondent banks by Fedwire or other means such as internal bank communications systems. International funds transfers generally are communicated through SWIFT (Society of Worldwide Interbank Financial Telecommunication, a Belgian based association of banks that provides the communication network for a large number of international funds transfers) and are settled in the United States through CHIPS (Clearing House Interbank Payments System, the funds settlement system operated by the New York Clearing House) and the Federal Reserve System or by book entries.

to monitor BSA compliance by banks to the federal banking agencies. Both civil and criminal penalties may be imposed for violations of the BSA. In addition, each of the federal banking agencies may take administrative action against banks under its supervision for failure to put into place adequate policies and procedures designed to insure BSA compliance.

The issues raised in the Report to the Senate Committee on Foreign Relations from Senators Kerry and Brown, dated September 30, 1992, regarding a subsidiary requirement were considered at length during the course of this study. Each of the three federal banking agencies responsible for supervision of foreign bank offices in the United States ensures that the domestic operations of such offices for which it is responsible (state licensed branches and agencies of foreign banks[5] in the case of the Federal Reserve, federally licensed branches and agencies of foreign banks in the case of the OCC, and insured branches (whether state or federally licensed) in the case of the FDIC) are examined for BSA compliance. This BSA compliance review is equivalent in relevant respects to the compliance review performed in the case of domestic institutions. Where the initial review reveals irregularities, additional verification procedures are employed.[6]

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[5] The large majority of foreign bank branches (80%) and agencies (99%) are state licensed.

[6] In recent years there has been a great deal of harmonization in international standards related to money laundering. Examples include recommendations made by the

(continued...)

Heretofore, because it was not the licensing agency for the foreign bank offices it regulates, the Federal Reserve could not revoke the authority of state licensed offices to operate in the event it became aware of violations of the BSA or other federal laws. The Federal Reserve now has that authority where it can demonstrate that there is "reasonable cause" to believe that a foreign bank has committed a violation of law, including a violation of the BSA or the substantive criminal money laundering statute.[7] The Federal Reserve received this new authority at its request in the Federal Deposit Insurance Corporation Improvements Act ("FDICIA").[8] This authority has been implemented in recent revisions to Regulation K.[9] FDICIA also gives the Board the authority to recommend to the OCC that it terminate the license of a federal branch or agency for violations of law. The OCC has independent authority to terminate the license of a foreign bank office it supervises for violations of law.

The federal bank regulatory agencies may impose the same range of penalties administratively (e.g., termination of the license, cease and desist orders and civil money penalties)

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[6](...continued)
Financial Action Task Force headquartered at the OECD, the model regulations published by the Organization of American States and the EC directive on money laundering. This harmonization means that foreign banks operating in the U.S. market are likely to be subject to money laundering restrictions in their home markets.

[7] Money Laundering Control Act of 1986, as amended, 18 U.S.C. §§1956-1957.

[8] P.L. No. 102-242 (Dec. 19, 1991.)

[9] 12 C.F.R. §211.26 (1992).

for violations of law and regulations on a branch of a foreign bank and its personnel that these agencies may impose on a financial institution incorporated in the United States and its personnel. The agencies also may file civil and/or criminal referrals when they have uncovered significant violations. The civil and criminal penalties that may be imposed by federal courts for violations of specific money laundering statutes (which include both fines and imprisonment) apply equally to branches of foreign banks, on the one hand, and banks incorporated in the United States, on the other.

TAX LIABILITY OF FOREIGN BANKS
(FACTOR 8)

APPENDIX E

TAX LIABILITY OF FOREIGN BANKS (FACTOR 8)

I. SUMMARY AND CONCLUSIONS

A. Taxation of U.S. Branches and Subsidiaries

In general, a U.S. subsidiary of a foreign corporation is taxed in the same manner (i.e., on a net basis with respect to all income, wherever earned) and at the same rate as any other U.S. corporation. Interest and dividends paid by the subsidiary to the foreign parent are subject to gross basis tax at a 30 percent rate (or lower treaty rate).

A U.S. branch of a foreign corporation, however, is subject to U.S. tax only with respect to income that is "effectively connected" with a U.S. trade or business conducted by the branch. Effectively connected income of a U.S. branch is subject to tax on a net basis under rules that generally parallel those applicable to U.S. corporations. The applicable tax rate is the regular U.S. corporate rate. The "dividend equivalent amount" is subject to a branch profits tax, and interest allocable to effectively connected income is treated as paid by a U.S. corporation and, therefore, is subject to gross basis tax at a 30 percent rate (or lower treaty rate). These taxes are intended to substitute for the withholding taxes imposed on dividends and interest paid by a U.S. subsidiary to its foreign parent.

Income derived by a foreign corporation from U.S. sources that is not effectively connected with a U.S. trade or business is generally subject to U.S. withholding tax imposed on the gross amount of such income. The statutory withholding rate is 30 percent, but this rate is often reduced under U.S. income tax treaties. Income derived by a foreign corporation from foreign sources that is not effectively connected with a U.S. trade or business is not subject to U.S. tax.

B. Effects of a Subsidiary Requirement

The effect of a subsidiary requirement on the tax liability of a foreign bank would vary for banks from different countries, due to (1) differences in home country tax laws, (2) the existence of U.S. income tax treaties with some, but not all, home countries and (3) differences between the provisions of existing U.S. income tax treaties with different countries. As an initial matter, therefore, it is not possible to draw a general conclusion as to the overall effect of a subsidiary requirement on the tax liability of foreign banks as a group. Some preliminary conclusions can be drawn, however, as to whether particular tax-related consequences of a subsidiary requirement would tend to have a neutral or non-neutral effect on a foreign bank's tax liability and whether this effect would depend upon tax treaties or home country law.

1. Conversion from Branch to Subsidiary Form

The conversion of a U.S. branch of a foreign bank to a U.S. subsidiary would generally be a tax-free transaction under the Internal Revenue Code (the "Code"), but the home country tax consequences of the conversion would vary among countries. In addition, the Code would not permit a new U.S. subsidiary to utilize net operating losses (if any) accumulated by a former U.S. branch.

2. Post-Conversion Operations

The Code generally seeks to equalize the tax treatment of U.S. branches and U.S. subsidiaries of foreign corporations in order not to create incentives for foreign businesses to choose one form of U.S. operation over the other. This theme of branch-subsidiary equivalence is evident in the rules governing determination of the U.S. taxable income of branches and subsidiaries of foreign corporations, the information reporting requirements that apply to each, and the treatment of home office lending to U.S. operations. A subsidiary requirement would tend to have a neutral effect in these areas.

In some cases, however, application of the Code provisions governing branch and subsidiary operations is affected significantly by U.S. income tax treaties. For example, the effect of a subsidiary requirement on the taxation of repatriated profits would depend on the existence of an applicable U.S. income tax treaty and on whether the provisions of that treaty currently permit imposition of the branch profits tax.

Similarly, the effect of a subsidiary requirement on the tax cost of lending to U.S. customers would vary, depending upon the existence of an applicable U.S. income tax treaty and the withholding rate provided in that treaty with respect to interest payments. It is conceivable that the capital requirements that would apply to a new U.S. subsidiary would cause a foreign bank to prefer to make large U.S. loans from its home office, rather than from the subsidiary. Interest paid on home office loans would be subject, however, to gross basis U.S. withholding tax. Although many U.S. income tax treaties would eliminate this withholding tax, there are significant cases in which either no U.S. income tax treaty exists or the applicable treaty retains a positive withholding rate for interest. In these cases, the U.S. withholding tax on interest could eliminate a foreign bank's net profit on a U.S. loan made from the home office. The combined effect, therefore, of increased capital requirements for loans made by a U.S. subsidiary and withholding tax on interest paid on home office loans (where applicable) could be a reduction in lending to U.S. customers by foreign banks based in affected countries.

II. ANALYSIS

A. Tax Consequences of Conversion from Branch to Subsidiary

1. Conversion Transaction

Under Code section 351, a foreign bank's transfer of U.S. branch assets to a new U.S. subsidiary in exchange for stock of the new subsidiary would generally be a tax-free nonrecognition transaction.[1] A foreign bank's home country, however, could impose a tax on built-in gain inherent in appreciated assets of a U.S. branch when those assets were transferred to a U.S. corporation.[2] In this case, the foreign bank could incur a home country tax liability upon conversion of its U.S. branch to a U.S. subsidiary, notwithstanding the tax-free nature of the transaction under U.S. law.[3]

2. Post-Conversion Use of Branch Net Operating Losses

A U.S. branch of a foreign corporation is permitted to use U.S. net operating losses generated in one taxable year to reduce its U.S. taxable income in a prior or subsequent year. Under Code section 172, net operating losses may be carried back three years or forward fifteen years. This carryover rule

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[1] If the foreign bank receives property other than stock of the new subsidiary (e.g., debt securities), gain recognition will be required. In addition, the tax consequences of the conversion transaction could differ if the U.S. branch assets are held through a special purpose foreign subsidiary of the foreign bank and that foreign subsidiary is converted into a U.S. corporation by means of a reorganization described in Code section 368(a)(1).

[2] Code section 367(a) imposes such a tax on the transfer of certain types of appreciated assets from a U.S. corporation to a foreign corporation.

[3] The incorporation of a U.S. branch would not trigger the branch profits tax (discussed below) if, under Treas. Reg. §1.884-2T(d), the U.S. branch elected to transfer its accumulated earnings and profits to the new U.S. subsidiary. In addition, the foreign parent corporation would have to agree to recognize gain (subject to certain limitations) upon a subsequent transfer of the stock of the new U.S. subsidiary. The transferred earnings and profits would then be taxed upon subsequent distribution (as a dividend) to the foreign parent corporation. If an election to transfer the accumulated earnings and profits were not made, the accumulated earnings and profits would be subject to taxation upon termination of the branch.

reduces the disparity between the taxation of businesses that have stable income and the taxation of businesses that experience income fluctuations. Code section 172 generally requires, however, that net operating losses be used by the same legal entity that incurred the losses.[4] Thus a foreign bank required to convert its U.S. branch to a U.S. subsidiary would generally lose the ability to carry its branch net operating losses forward into future years. The effect of this rule on any particular foreign bank would depend upon whether its U.S. branch had accumulated net operating losses prior to conversion and, if so, the extent of those losses.

B. Subsidiary Operations: Areas Where Tax Treaties Have Minimal Effect

As noted above, the Code generally seeks to achieve equivalent tax treatment of the operations of U.S. branches and U.S. subsidiaries of foreign corporations in order to avoid the creation of incentives for operation in one form or the other. The effect of a conversion of a U.S. branch to a U.S. subsidiary would thus tend to have a relatively neutral effect on a foreign bank's U.S. operations in situations where the application of relevant Code provisions is not significantly affected by U.S. tax treaties.

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[4] Although Code section 381 permits transfer of net operating losses to a different legal entity in some circumstances, these exceptions would not generally apply to a conversion of a U.S. branch to a U.S. subsidiary.

1. Determination of Taxable Income

Assuming that there is no significant change in the U.S. business of a foreign bank when it converts from branch to subsidiary form, there should not be a significant change in the amount of its U.S. taxable income.

a. U.S. Branch

Under Code section 882, the U.S. branch of a foreign corporation is subject to net basis taxation with respect to income that is "effectively connected" with its U.S. trade or business ("ECI"). ECI is taxed at the same rate that applies to a U.S. corporation and may be subject to the alternative minimum tax imposed by Code section 55. A foreign corporation may not include a U.S. branch in a consolidated federal income tax return filed for any U.S. subsidiaries.

Interest income from a banking, financing or similar business activity is treated as ECI if the loans on which the interest is received are attributable to the U.S. branch. Under Treas. Reg. §1.864-4(c)(5)(iii), a loan is treated as attributable to a U.S. branch if that branch "actively and materially participated in soliciting, negotiating, or performing other activities required to arrange the acquisition of" the loan.[5] Similar rules apply with respect to income from

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[5] The fact that a foreign bank books a loan made to a U.S. customer in a foreign office (e.g., an office located in a low-tax jurisdiction) is not determinative as to whether interest income associated with that loan is taxable in the U.S. as ECI of a U.S. branch. If personnel employed in a U.S. branch of a foreign bank (continued...)

securities held in connection with a banking, financing or similar business. Income from services is generally considered ECI if the services were performed in the U.S. Transactions between a U.S. branch and its home office (or other non-U.S. branches of the same foreign corporation) are generally disregarded for purposes of determining ECI.

In computing taxable ECI, foreign corporations are allowed the same deductions allowed to U.S. corporations, to the extent that those deductions are connected with ECI. The most significant deduction allowable to a U.S. branch of a foreign bank is the interest deduction, determined under Treas. Reg. §1.882-5. The underlying objective of Treas. Reg. §1.882-5 is to determine the approximate amount of interest expense that would have been deductible by a U.S. branch if the branch were a subsidiary. The regulation permits a U.S. branch to deduct interest expense associated with its "U.S.-connected liabilities." To compute the amount of U.S.-connected liabilities, the regulation assumes that the liability-to-asset ratio of the U.S. branch is the same as that of the foreign bank as a whole. This ratio is multiplied by the value of the assets held by the U.S. branch to determine the amount of U.S.-connected liabilities. If the amount of U.S.-connected liabilities does not exceed the amount of liabilities actually booked in the U.S.

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[5](...continued) actively and materially participated in activities associated with the making of a loan booked outside the U.S., interest income derived from the loan will be treated as taxable ECI of the U.S. branch.

branch, the interest deduction is computed by multiplying the amount of U.S.-connected liabilities by the average interest rate paid by the U.S. branch for the year. If the amount of U.S.-connected liabilities does exceed the amount of liabilities actually booked in the U.S. branch, the foreign bank's home office is treated as having borrowed the excess amount on behalf of the U.S. branch and reloaned it to the U.S. branch. The interest deduction of the U.S. branch in this case is the sum of (1) the amount of booked liabilities multiplied by the average branch interest rate for the year and (2) the amount of the excess U.S.-connected liabilities multiplied by a worldwide dollar interest rate.

b. U.S. Subsidiary

A U.S. subsidiary of a foreign corporation is taxed in the same manner as a U.S.-owned corporation. Thus a U.S. subsidiary of a foreign bank would be subject to net basis taxation on its worldwide income at a maximum rate of 34 percent and could be subject to the alternative minimum tax. A U.S. subsidiary owned by a U.S. holding company would be eligible to file a consolidated federal income tax return with the holding company.

Income reported by a U.S. subsidiary with respect to transactions with its foreign parent corporation or any other related person may be subject to adjustment under Code section 482 where necessary to clearly reflect the income of the U.S. subsidiary. Code section 482 and the regulations thereunder generally apply an arms' length standard for review of related person transactions.

Assuming that the business of a new U.S. subsidiary were essentially the same as the business conducted by a former U.S. branch, the worldwide income of the subsidiary should roughly correspond to the ECI of the former U.S. branch. In addition, the amount of the interest deduction allowed to a new U.S. subsidiary should be roughly comparable to the amount of the interest deduction allowed to the former U.S. branch. As noted above, the general objective of Treas. Reg. §1.882-5 is to compute an interest deduction for a U.S. branch that is comparable to the interest deduction which would have been allowed if the branch were a U.S. subsidiary.

2. Information Reporting and Record Maintenance

The U.S. tax information reporting and record maintenance requirements that apply to U.S. branches and U.S. subsidiaries of foreign corporations are designed to be comparable. Differences that do exist are generally limited to those necessitated by the difference in the form of the entity. Thus a foreign bank should not experience a substantial change in its information reporting and record maintenance requirements upon conversion of a U.S. branch to a subsidiary.

a. U.S. Subsidiary: Code section 6038A

Under Code section 6038A and the Treasury regulations thereunder, a foreign-controlled U.S. corporation engaged in a U.S. business must file an information return (on IRS Form 5472) describing "reportable transactions"[6] with related persons (including a parent corporation, brother-sister corporations, and U.S. or foreign subsidiaries) and must maintain certain records relevant to these transactions in the United States. Substantial monetary penalties apply in the event of a failure to satisfy these requirements.

A foreign-controlled U.S. corporation to which Code section 6038A applies is a U.S. corporation that is 25 percent foreign-owned, i.e., 25 percent or more of the total voting power or value of its stock is owned by at least one foreign person at any time during the taxable year. A separate IRS Form 5472 must be filed by the foreign-controlled U.S. corporation with respect to each related party with which the foreign-controlled U.S. corporation had a reportable transaction. The aggregate dollar amount for all reportable transactions must be provided on each Form 5472, as well as the separate dollar amount for each category of reportable transactions.

A foreign-controlled U.S. corporation must maintain records (or cause another person to maintain records) sufficient to establish the correctness of the corporation's federal income

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[6] Reportable transactions include sales and purchases of inventory; sales and purchases of other tangible personal property; sales, purchases, and amounts paid and received as consideration for the use of intangible property; other rents and royalties received; consideration paid and received for technical, managerial, engineering, construction, scientific or similar services; commissions paid and received; amounts loaned and borrowed (other than trade receivables paid or collected in full in the ordinary course of business); interest paid or received; and premiums paid and received for insurance or reinsurance.

tax return and the correct treatment of all reportable transactions with related persons. Records must be maintained in the United States, unless a special election is made under which the foreign-controlled U.S. corporation agrees to produce foreign-held records for the IRS. Under a "safe harbor" rule, reporting corporations that maintain records in certain specified categories are deemed to satisfy the record maintenance requirement. Any foreign person related to a foreign-controlled U.S. corporation must authorize the foreign-controlled U.S. corporation to act as its agent for purposes of IRS examination of its books and records and for the service and enforcement of a summons relating to any reportable transaction with the foreign-controlled U.S. corporation.[7]

b. U.S. Branch: Code section 6038C

Code section 6038C requires that a foreign corporation engaged in a U.S. trade or business file an information return (on IRS Form 5472) that identifies all foreign shareholders owning 25 percent or more of their stock and describes reportable transactions between the foreign corporation and related persons (including its significant foreign shareholders). Substantial monetary penalties apply in the event of a failure to file the requisite information return or to maintain adequate supportive records.

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[7] Foreign-controlled U.S. corporations with less than $10,000,000 in gross receipts are exmept from this requirement, as well as the record maintenance requirements discussed above.

Although Treasury regulations have not yet been issued under section 6038C, that section incorporates by cross-reference the information reporting and record maintenance requirements of Code section 6038A (applicable to foreign-controlled U.S. corporations). It is thus expected that the transactions identified as "reportable" in forthcoming Treasury regulations under section 6038C will be comparable to those identified in the existing Treasury regulations under section 6038A, and that the record maintenance requirements imposed by the section 6038C regulations will be similar to those of the section 6038A regulations. In addition, the House Ways and Means Committee Report on the Revenue Reconciliation Act of 1990 indicates that a foreign corporation may be required to provide information and maintain records relevant to the allocation and apportionment of deductible expenses (including deductible interest expense) to effectively connected U.S. branch income and the allocation of income and deduction amounts between the U.S. and foreign countries. See House Ways and Means Comm. Rpt. on H.R. 5835 at p. 72-3.

3. Home Office Lending to U.S. Operations

Under Code section 884(f), interest deemed paid by a U.S. branch to a foreign home office is subject to an excess interest tax designed to correspond to the withholding tax that applies to interest payments by a U.S. corporation to a foreign lender. Interest expense that is deductible under Treas. Reg. §1.882-5 (discussed above) is treated as "excess interest" to the extent that it exceeds the interest expense actually paid by the U.S. branch. The amount of "excess interest" effectively equals the amount of interest expense associated with the excess of U.S.-connected liabilities over booked liabilities (as determined under Treas. Reg. §1.882-5). As noted above, this excess amount of liabilities is treated as having been incurred by the foreign corporation's home office on behalf of the U.S. branch and re-loaned to the branch. The rate of the excess interest tax is 30 percent, the same as the statutory withholding rate for interest payments. For corporations which are "qualified residents" of a treaty country, the excess interest tax is imposed at the reduced treaty rate provided for interest withholding. The conversion of a U.S. branch to a U.S. subsidiary should thus tend to have a relatively neutral effect on inter-office lending practices of a foreign bank.

C. Subsidiary Operations: Areas Where Tax Treaties Have Significant Effect

Although the Code generally seeks to achieve equivalent tax treatment of the operations of U.S. branches and U.S. subsidiaries of foreign corporations, some Code provisions governing operation in branch or subsidiary form are significantly affected by applicable U.S. income tax treaties. In these areas, a foreign bank's conversion of its U.S. operations from branch to subsidiary form may have a non-neutral effect.

1. Repatriation of Profits

A number of U.S. income tax treaties prevent imposition of the branch profits tax (designed to correspond to the dividend withholding tax). For foreign banks from these countries, the withholding tax applicable to dividends paid by a new U.S. subsidiary would represent an additional cost of repatriating U.S. profits.

a. U.S. Branch: Branch Profits Tax

No U.S. withholding tax is imposed on profits repatriated from a U.S. branch to the home office of a foreign corporation. Instead, Code section 884 imposes a "branch profits tax" on an amount of profits deemed to have been remitted by a U.S. branch (the "dividend equivalent amount"). The dividend equivalent amount for a taxable year is generally equal to the amount of branch profits for the year, reduced by increases in U.S. investment and increased by reductions in U.S. investment during the year. The branch profits tax is intended to correspond to the shareholder-level withholding tax imposed on dividends paid by a U.S. subsidiary to a foreign parent. The tax is a second-level tax imposed in addition to the regular tax imposed on U.S. branch ECI. The statutory rate of the branch profits tax is 30 percent (the same as the dividend withholding tax rate).

For corporations which are "qualified residents" of a treaty country, the branch profits tax is imposed at the reduced treaty rate provided for withholding on dividends paid to a 100 percent shareholder. The branch profits tax is considered discriminatory, however, under a number of significant U.S. tax treaties and is not imposed on U.S. branches of corporations resident in the affected countries.[8]

b. U.S. Subsidiary: Dividend Withholding Tax

Under Code section 881, dividends paid by a U.S. subsidiary to a foreign parent corporation are subject to U.S. withholding tax at a statutory rate of 30 percent. This rate is reduced by U.S. income tax treaties -- often to 5 percent for dividends paid to a direct investor (i.e., a corporate investor owning at least 10 percent of the stock of the dividend-paying corporation).

As noted above, the branch profits tax is designed to correspond to the dividend withholding tax. Thus, in many cases, a foreign bank switching from the branch profits tax to dividend withholding (upon conversion of its U.S. operations to subsidiary form) should not face a substantial change in U.S. tax liability on repatriated profits. For a foreign bank resident in a country whose income tax treaty with the U.S. does not permit imposition of the branch profits tax, however, dividend withholding would

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[8] U.S. income tax treaties that do not permit imposition of the branch profits tax are those with Aruba, Austria, Belgium, China, Cyprus, Denmark, Egypt, Finland, Greece, Hungary, Iceland, Ireland, Italy, Jamaica, Japan, Korea, Luxembourg, Malta, Morocco, Netherlands, Norway, Pakistan, Philippines, Sweden, Switzerland, United Kingdom. Countries whose income tax treaties with the U.S. do permit imposition of the branch profits tax include Australia, Barbados, Canada, France, Germany, India, New Zealand, Poland, Romania, Spain, Trinidad & Tobago, and the countries of the former U.S.S.R.

increase the U.S. tax cost of repatriating profits to the home office. However, it should also be noted that dividend withholding would eliminate a competitive advantage which banks from those countries currently enjoy over banks from countries whose treaties permit imposition of the branch profits tax or from countries with no U.S. tax treaty.

2. Interest Paid by U.S. Customers

It is possible that the capital requirements applicable to a U.S. subsidiary of a foreign bank would cause a foreign bank to restrict the lending activities of the U.S. subsidiary (after enactment of a subsidiary requirement). In this situation, the potential application of withholding tax to interest paid by U.S. customers to the foreign bank's home office could (where not eliminated by treaty) preclude a compensating increase in U.S. lending activity by the home office. The result could be an overall restriction in lending to U.S. customers by foreign banks in affected countries.

a. Interest Paid to U.S. Branch or U.S. Subsidiary

Interest paid by a U.S. customer to a U.S. branch of a foreign bank is not subject to U.S. withholding tax if the interest income represents ECI of the branch (which is subject to net basis U.S. income taxation). Interest that is not ECI is subject to U.S. withholding tax at a statutory rate of 30 percent or a reduced treaty rate.[9] Interest paid by a U.S. customer to

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[9] As a practical matter, virtually all interest paid by U.S. customers to U.S. branches of foreign banks is ECI.

a U.S. subsidiary of a foreign bank is treated in the same manner as interest paid to any other U.S. person, i.e., it is exempt from U.S. withholding tax.

b. Interest Paid by U.S. Customer to Home Office

A foreign bank that made large U.S. loans through a new U.S. subsidiary would be required to maintain substantial capital in the U.S. subsidiary. A foreign bank might thus prefer to make large loans to U.S. customers from its home office, e.g., by participating in a syndication arranged by a U.S. bank. Interest paid by a U.S. customer to the home office of a foreign bank is subject, however, to U.S. withholding tax at a statutory rate of 30 percent.[10] Interest withholding is eliminated under many U.S. tax treaties, but remains at a positive rate under some significant treaties, e.g., Canada (15 percent), Japan (10 percent) and Switzerland (5 percent). In addition, many foreign banks with U.S. operations are based in countries which do not have income tax treaties with the U.S., e.g., Hong Kong, the Middle East and Latin America.

Even at a reduced treaty rate, a gross basis U.S. withholding tax on interest paid by a U.S. customer to a foreign

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[10] Statutory exceptions from U.S. withholding tax include: (a) interest on bank deposits, under Code sections 881(d) and 871(i); (b) portfolio interest, which specifically does not include interest received by a bank on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business, under Code section 881(c); and (c) interest on certain short-term discount obligations with a maturity of 183 days or less, under Code section 871(g)(1)(B). None of these exceptions would be useful to a foreign bank making loans to U.S. customers in the ordinary course of its business.

bank's home office could eliminate the small profit margin typical of the lending business. In contrast, interest paid to a U.S. branch is subject to net basis U.S. tax that is usually less than 2 percent of the gross amount of interest received. In addition, a net basis U.S. tax is usually fully creditable against net basis home country tax, whereas a gross basis U.S. withholding tax would usually exceed the net basis home country tax, resulting in excess foreign tax credits. Although the potential for elimination of profit on U.S. loans could encourage foreign banks to make U.S. loans through a new U.S. subsidiary, it seems more likely that the combined effect of the U.S. capital requirements applicable to a U.S. subsidiary and the withholding tax implications of home office lending would be a reduction in lending to U.S. customers by foreign banks not eligible for a treaty exemption from withholding tax.

The imposition of U.S. withholding tax on interest paid to the home offices of banks located in these countries would presumably give these countries a new incentive to agree to a treaty exemption for bank loan interest. The U.S. Model Income Tax Treaty provides an exemption from withholding for interest income. Some countries have historically been unwilling, however, to agree to an exemption for bank loan interest in order to protect their domestic banking industries, i.e., because a withholding exemption would permit U.S. banks to compete with domestic banks for the business of domestic customers. To the extent that treaties could be renegotiated to provide an exemption for bank loan interest, the potential effect of the withholding tax would be mitigated. If this does not occur, however, the potential for reduced lending to U.S. customers may be the most significant tax-related consequence of a subsidiary requirement for foreign banks.

DIFFERENCES IN TREATMENT OF UNITED STATES CREDITORS UNDER BANKRUPTCY AND RECEIVERSHIP LAWS (FACTOR 10)

APPENDIX E

DIFFERENCES IN TREATMENT OF UNITED STATES CREDITORS UNDER BANKRUPTCY AND RECEIVERSHIP LAWS (FACTOR 10)

I. SUMMARY AND CONCLUSIONS

Under U.S. law and procedure, a creditor of an insolvent U.S. branch of a foreign bank would be treated in much the same way as a creditor of an insolvent domestic bank subsidiary of a foreign bank parent. Each creditor would have a U.S. forum -- either a state or federal liquidation proceeding -- in which to pursue its claim. Each would have access, by virtue of that proceeding, to assets of the branch or subsidiary under the jurisdiction of the U.S. liquidator. In addition, however, the branch creditor potentially would have access, in a foreign forum or forums, to the worldwide assets of the foreign bank. The subsidiary creditor would not have any legal claim to such additional assets, assuming no legal or factual basis exists for piercing the corporate veil.

II. ANALYSIS

A. Background

Tremendous diversity exists in the ways in which countries deal with insolvent banks. U.S. bank insolvencies are outside the scope of general bankruptcy legislation and instead are treated under state and federal banking laws administered by bank regulatory authorities, while bank insolvencies in many other countries are handled pursuant to general insolvency laws.

Some countries, including the United States, liquidate foreign bank branches as separate entities; others either attempt to liquidate the entire foreign bank or simply collect assets and transfer them to the home country liquidator for disposition in the liquidation proceeding pending there. This diversity has hindered the development of common approaches to multinational insolvencies even among countries actively promoting cooperation on other economic issues.[1] It is unlikely that multinational bank insolvency will be the subject of multilateral treaty or agreement in the near term.

One internationally recognized principle of bankruptcy law is that similarly situated creditors should share equally in the assets of the debtor's estate. In practice, however, local law and policy frequently dictate that equal treatment means all creditors of a local debtor, whether such creditors are themselves local or not, should be treated in accordance with local law. Thus, the principle of equal treatment accommodates two competing theories of bankruptcy administration: universality -- where deference generally is given to the legal proceedings in the country in which the insolvent entity is organized and the worldwide creditors and assets of a debtor are treated in accordance with the laws of that country -- and territoriality -- where no such deference is given and any

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[1] See R. Gitlin & E. Flaschen, "The International Void in the Law of Multinational Bankruptcies," 42 Bus. Law. 307, 311-13 (1987) (discussing history of EC's efforts to negotiate a bankruptcy convention).

country may administer its own bankruptcy proceedings without regard for foreign proceedings or judgments.

B. Applicable Federal and State Law

State and federal bank insolvency rules, as well as the federal bankruptcy code, generally reflect a territorial approach.[2] The same basic rules currently apply to insolvencies of U.S. branches of foreign banks and to insolvencies of banks organized under the laws of the United States that are owned or controlled by foreign banks or foreign bank holding companies. This parity of treatment is accomplished in the case of branches by treating an insolvent branch as an entity separate and apart from the rest of the foreign bank for purposes of actual liquidation.[3]

1. Branch Liquidation for Insolvency

Under federal law, the Office of the Comptroller of the Currency ("OCC") is authorized to appoint a receiver to liquidate a federal branch of a foreign bank. In the case of an insured branch, the receiver would be the Federal Deposit Insurance

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[2] Section 304 of the federal bankruptcy code, 11 U.S.C. §304, which reflects a more universalist approach, is discussed infra at page 9.

[3] See e.g., 12 U.S.C. §3102(j)(2) (provision of the International Banking Act governing claims that may be made in liquidations of federal branches); N.Y. Banking Law §606-4 (McKinney 1971) (permits N.Y. Superintendent to take possession of all property of a foreign bank in the state in connection with liquidation of a foreign bank office licensed by the state).

Corporation ("FDIC").[4] The OCC may appoint a receiver for certain violations of law; where a conservator has been appointed for the foreign bank in the bank's home country; when the bank does not pay a judgment obtained by a creditor against it, arising out of a transaction with its branch; or if the OCC determines that the foreign bank is insolvent.[5] The receiver has a broad mandate; he or she may take possession of all of the foreign bank's agencies and branches (including state-licensed offices), and any additional property or asset of the foreign bank located in the United States.[6] The applicable law creates a preference for claims of third party depositors and other creditors against a foreign bank arising out of transactions with any branch or agency of the foreign bank in the United States. The receiver is prohibited from paying any claims that would not represent an enforceable legal obligation against the branch if it were a separate legal entity (e.g., a subsidiary).[7] These preferences and prohibitions define the assets of the branch broadly -- to include all of the foreign bank's U.S. assets and not simply the assets of the branch itself -- and the claims against the branch narrowly, thereby benefiting local creditors.

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[4] At present, most branches of foreign banks are not FDIC insured.

[5] 12 U.S.C. §3102(j). The OCC also may appoint a receiver if it determines that an insured branch is critically undercapitalized. 12 U.S.C. §1831o(h)(3).

[6] 12 U.S.C. §3102(j)(1).

[7] 12 U.S.C. §3102(j)(2).

After all valid claims are paid, the receiver is authorized to turn over any excess assets of the branch to the head office of the foreign bank or to a duly appointed local liquidator of such foreign bank.

State-licensed branches of foreign banks are subject, in the first instance, to the liquidation laws of the licensing state. In practice, a state-licensed insured branch would be liquidated by the FDIC. State-licensed branches that are not insured would be wholly subject to state bank liquidation law. The states with a substantial foreign bank presence follow a separate entity approach which is comparable to that followed by the OCC as liquidator of federal branches.[8]

This approach has the advantage of affording U.S. creditors of a branch a U.S. forum, as they would have if the branch had been a subsidiary, but not denying them access, albeit perhaps in other forums, to the bank's worldwide capital and assets. Creditors of a subsidiary, unlike creditors of a branch, generally have no rights to the assets of the corporate parent. Access to worldwide assets was recognized as a crucial factor favoring the branch form in the report of the Superintendent's Advisory Committee on Transnational Banking Institutions recently published by the New York State Banking Department. Of course,

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[8] See e.g., Cal. Fin. Code §§1781, 1785 (West) (foreign bank office to be liquidated in accordance with law applicable to state bank); Fla. Stat. Ch. 663.02 (same); Ill. Rev. Stat. Ch. 17, paras. 2701, 2719, 2725 (1991) (same); N.Y. Banking Law §606-4 (McKinney 1971) (same).

access to worldwide capital and assets has important implications for the other factors addressed in this study.

2. Subsidiary Liquidation for Insolvency

A U.S. bank subsidiary of a foreign bank would be liquidated in the same manner as a U.S. bank subsidiary of a U.S. bank holding company. If the U.S. subsidiary were a national bank, the national bank liquidation procedures would apply. If the U.S. subsidiary were a state chartered bank, the liquidation procedures of the chartering state would apply. Generally speaking, the chartering entity would close the institution and the FDIC would act as receiver. The assets available to the receiver would be those of the subsidiary and would not include assets of the parent, assuming no legal or factual basis exists for piercing the corporate veil.

Unlike the case of a branch or agency, where the insolvency of the foreign bank itself would necessarily trigger a liquidation of the branch, the insolvency of a foreign bank parent of a U.S. subsidiary would not necessarily require the liquidation of the U.S. subsidiary.[9] In general, however, when a

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[9] Canadian Commercial Bank ("CCB"), a mid-sized Canadian bank based in Edmonton, Alberta, failed in 1985. CCB was liquidated pursuant to Canadian law by Price Waterhouse, Ltd., a court appointed liquidator. At the time of the failure, CCB had both an indirect state chartered bank subsidiary, Commercial Center Bank ("Commercial Center") in Santa Ana, California, and a state-licensed Los Angeles agency. The agency was closed in September 1985 and liquidated as a separate entity by the California authorities. All permitted claims were paid in full and the excess assets were transferred to the Canada Deposit Insurance Corporation ("CDIC"), the entity that held the assets (continued...)

parent fails an otherwise sound subsidiary also suffers because of the effects on market confidence.[10]

C. Case Studies

Recent experience with liquidations of U.S. branches of foreign banks is consistent with these conclusions.[11] There have been very few involuntary liquidations of U.S. branches of foreign banks since 1945. All have involved uninsured state-licensed branches; neither the OCC nor the FDIC has been required to liquidate a branch under its supervision for reasons of

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[9](...continued) of CCB in liquidation. Commercial Center was not closed at the time of the CCB liquidation. The CDIC has continued to support the bank by funding it and putting in place a management team. In the absence of such foreign government support -- which could not be expected to occur in all cases -- U.S. regulators might have been required to liquidate Commercial Center, which could have resulted in losses to either the insurance fund or depositors.

[10] See e.g., Treasury and Civil Service Comm., Fourth Report -- Banking Supervision and BCCI: International and National Regulation, Bank of England Response (July 1992) Annex 2 (I)(a)(11). The problems experienced by the First American banks in the aftermath of the closing of BCCI are consistent with this general trend.

[11] In an effort to obtain comparative data on this issue, the Justice Department surveyed banking requirements in a selected sample of jurisdictions. These jurisdictions were chosen because they were representative of the types of jurisdictions in the U.S. foreign bank community (United Kingdom, Italy, Japan, India, Qatar and Argentina). None of the jurisdictions surveyed require that foreign banks conducting regular banking operations in their territory do so through domestically incorporated subsidiaries. Where banks have the option, as they do in the United States, of conducting operations directly through branches or indirectly through subsidiaries, they generally choose the branch form of organization. Thus, there is an absence of comparative data to support a judgment that the use of one form of bank organization is superior to the other in protecting domestic depositors in the event of insolvency.

insolvency. In these liquidations, the insolvency of the branch was part of the insolvency of the entire institution and contemporaneous liquidation proceedings were underway in the home country. In each case, all valid claims were paid in full.

●● In the late 1960s, the New York State Superintendent of Banks liquidated the New York branch of Intra Bank, S.A., a Lebanese bank. The estate was large enough to pay all validated claims. The surplus went to the U.S. government in compromise of a claim of the Commodity Credit Corporation that initially had been rejected by the Superintendent.[12]

●● In early 1980, the New York Superintendent liquidated the New York branch of Banco de Intercambio Regional, S.A., an Argentine bank. The estate was large enough to pay all claims of branch creditors. The surplus was turned over to the Argentine liquidator.[13]

●● In the ongoing liquidations of the New York and California depository agencies of the Bank of Commerce and Credit International, S.A. ("BCCI"), each of the New York and California Superintendents expects there to be a surplus after the payment of valid claims.

The liquidations of BCCI's New York and California agencies, though not directly relevant to this study because they involved agencies as opposed to branches, are nonetheless instructive as contemporary examples of a complex, multinational bank failure involving simultaneous liquidations of the foreign bank itself in the home country and multiple liquidations of subsidiaries and unincorporated offices around the world. The state liquidations were complicated by the early filing in U.S. bankruptcy court of petitions, under section 304 of the federal

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[12] In Re Willie, 61 Misc. 2d 992, 30 N.Y.S.2d 520, 543 (Sup. Ct. 1968).

[13] In Re Seibert, 135 Misc. 2d 1093, 517 N.Y.S.2d 358 (Sup. Ct. 1987).

bankruptcy code, by the foreign liquidators of BCCI and the pendency of a criminal case which resulted in the forfeiture by BCCI of certain U.S. assets.

The major section 304 proceeding was filed by BCCI liquidators appointed by the courts of Luxembourg, where BCCI was organized, the United Kingdom, where BCCI was headquartered, and Grand Cayman, where BCCI Overseas, a sister company, was organized. The petition and accompanying motion sought a temporary restraining order which, if granted, could have prevented the Superintendents in New York and California from proceeding with the liquidations of the BCCI agencies in those states. Section 304 permits a foreign representative of a foreign debtor to petition to enjoin the commencement or continuation of any proceedings against the debtor with respect to property involved in a foreign proceeding and to order the turnover of the U.S. assets of the debtor for administration by the foreign representative.[14] U.S. bank regulators took the position in court that section 304 should not be used to enjoin or otherwise interfere with a bank insolvency proceeding.[15] The judge did not enjoin the continuation of either the California or the New York liquidation nor did he reach the merits of the regulators' argument that section 304 should not apply to state or federal bank liquidation proceedings. Instead, California and

[14] 11 U.S.C. §304.

[15] In Re Smouha, Case No. 91-B-13569 (JLG), U.S. Bankr. Ct., S.D.N.Y.

New York negotiated a settlement with the foreign liquidators which permitted the liquidations to go forward unimpeded. The foreign liquidators agreed not to make any claims against BCCI assets until after the state liquidations were concluded.

The BCCI liquidations are not yet complete. Nonetheless, a few important conclusions can be drawn from them. First, in spite of the complications created by the section 304 proceeding, the state-appointed liquidators in both New York and California have been able to conduct their liquidations in accordance with the rules and principles outlined above. Second, the liquidators have at least as many assets under their jurisdiction that they would have had if the agencies had been separately incorporated subsidiary banks of BCCI. Finally, the outcome of the BCCI liquidations in all likelihood will be consistent with prior cases; that is, the liquidator will be left with excess assets after all valid claims of the agencies' creditors are paid.

THE SECRETARY OF THE TREASURY
WASHINGTON

December 18, 1992

The Honorable Donald W. Riegle, Jr.
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am pleased to submit this report on the study by the Treasury Department and the Federal Reserve Board on whether foreign banks should be required to conduct banking operations in the United States through subsidiaries rather than branches. The report and study were prepared pursuant to Section 215 of the Foreign Bank Supervision Enhancement Act (FBSEA), and in consultation with the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Attorney General.

The Treasury and Board have considered carefully the factors specified in the legislation and concluded that a requirement that all foreign banks operate in this country in the form of subsidiaries, either across-the-board or for purposes of expanded powers, is neither necessary nor desirable. The Treasury and Federal Reserve Board believe that the longstanding U.S. support for the principle that banks should be permitted to choose the form of establishment as either branches or subsidiaries should be maintained.

Recent legislative actions and international measures provide additional safeguards. In particular, the study notes that the adoption of the Foreign Bank Supervision Enhancement Act strengthens significantly the ability to protect the safety and soundness of the U.S. banking system by more effective regulation of foreign banks operating in this country, particularly in those areas where uniform standards previously did not exist for foreign banking operations. Furthermore, the Federal Reserve guidelines on capital equivalency established pursuant to Section 214(b) of the FBSEA and the minimum standards on supervision of banks operating internationally adopted by the Basle Committee address concerns relating to competitive equity and national treatment.

The United States has pursued the principle of investor choice in a wide range of international fora to provide increased access to foreign markets for U.S. financial institutions, including the Uruguay Round, NAFTA, and bilateral negotiations. Treasury and the Board recognize that it is important to assure that U.S. negotiators have the necessary tools to advance U.S. interests abroad. However, they agree that a subsidiary requirement applied to all foreign banking operations either across-the-board or for purposes of expanded powers is not desirable and could be counterproductive to this effort.

The enclosed study and its appendices provide considerable background on each of the factors specified in the legislation. I hope that you find this report and study useful as the Congress considers future reform of the U.S. financial system.

Sincerely,

Nicholas F. Brady

Nicholas F. Brady

Enclosure

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
December 21, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $12,415 million of 13-week bills to be issued December 24, 1992 and to mature March 25, 1993 were accepted today (CUSIP: 912794B60).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.13%	3.20%	99.209
High	3.18%	3.25%	99.196
Average	3.16%	3.23%	99.201

Tenders at the high discount rate were allotted 41%. The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	23,320	23,320
New York	28,510,125	11,016,125
Philadelphia	11,615	11,615
Cleveland	44,075	44,075
Richmond	34,200	34,200
Atlanta	39,440	39,440
Chicago	1,335,010	296,510
St. Louis	14,480	14,480
Minneapolis	8,640	8,640
Kansas City	27,995	27,995
Dallas	20,885	20,885
San Francisco	635,700	135,700
Treasury	741,730	741,730
TOTALS	$31,447,215	$12,414,715
Type		
Competitive	$27,636,820	$8,604,320
Noncompetitive	1,321,195	1,321,195
Subtotal, Public	$28,958,015	$9,925,515
Federal Reserve	2,125,210	2,125,210
Foreign Official Institutions	363,990	363,990
TOTALS	$31,447,215	$12,414,715

An additional $131,110 thousand of bills will be issued to foreign official institutions for new cash.

NB-2107

AUCTION RESULTS

PUBLIC DEBT NEWS

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

TREASURY PUBLIC DEBT

FOR IMMEDIATE RELEASE
December 21, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $12,410 million of 26-week bills to be issued December 24, 1992 and to mature June 24, 1993 were accepted today (CUSIP: 912794D68).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.30%	3.40%	98.332
High	3.32%	3.42%	98.322
Average	3.32%	3.42%	98.322

Tenders at the high discount rate were allotted 77%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	20,055	20,055
New York	31,995,405	11,607,825
Philadelphia	6,030	6,030
Cleveland	32,590	32,590
Richmond	22,340	22,340
Atlanta	41,635	41,405
Chicago	1,261,325	72,295
St. Louis	10,145	10,145
Minneapolis	7,415	7,415
Kansas City	24,475	24,475
Dallas	9,610	9,610
San Francisco	528,400	107,470
Treasury	448,595	448,595
TOTALS	$34,408,020	$12,410,250
Type		
Competitive	$30,289,190	$8,291,420
Noncompetitive	819,520	819,520
Subtotal, Public	$31,108,710	$9,110,940
Federal Reserve	2,450,000	2,450,000
Foreign Official Institutions	849,310	849,310
TOTALS	$34,408,020	$12,410,250

An additional $285,890 thousand of bills will be issued to foreign official institutions for new cash.

NB-2108

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
December 22, 1992

CONTACT: RICH MYERS
(202) 622-2930

ASSISTANT SECRETARY FRED GOLDBERG LEAVES TREASURY

Secretary Nicholas F. Brady announced today that Fred Goldberg, Assistant Secretary for Tax Policy, has left the Treasury Department to return to the private sector.

In announcing Mr. Goldberg's departure, Secretary Brady said, "Fred Goldberg's tenure was marked by professionalism, creativity and always putting the best interests of the taxpayer first. I have relied on Fred for his expertise and judgment and our nation's tax system is fairer and stronger because of the fine work he has done."

Mr. Goldberg will be returning to the private sector as a partner in the Washington D.C., office of the law firm Skadden, Arps, Slate, Meagher and Flom.

Mr. Goldberg has been Assistant Secretary for Tax Policy since February 3, 1992. In that position, he served as chief advisor to the secretary in the formulation and execution of international and domestic tax policies and programs. Among his accomplishments, Mr. Goldberg played a significant role in promoting the Administration's economic growth proposals, developing and implementing the Treasury/IRS Business Plan, promoting and implementing tax simplification, and initiating and pursuing a number of long-term tax policy studies.

From 1989 until his appointment as Assistant Secretary, Mr. Goldberg was Commissioner of the Internal Revenue Service. At the IRS, he was in charge of over 116,000 employees and responsible for an operating budget of over $6 billion, and total tax collection in 1991 exceeding $1 trillion. As commissioner, Mr. Goldberg directed the tax modernization program to update and improve IRS' computer information systems, and a program to reduce taxpayer burden and improve voluntary compliance.

From 1986 until 1989, Mr. Goldberg was a partner in the law firm of Skadden, Arps, Slate, Meagher & Flom. From 1984 to 1986, he served as Chief Counsel for the IRS.

Mr. Goldberg received a B.A. in economics (1969), and a J.D. (1973) from Yale University. A native of St. Louis, Mr. Goldberg and his wife, the former Wendy Meyer, have five children.

Secretary Brady said that Alan J. Wilensky, Deputy Assistant Secretary for Tax Policy, is now Acting Assistant Secretary.

NB-2109 #####

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
December 22, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $15,501 million of 2-year notes, Series AH-1994, to be issued December 31, 1992 and to mature December 31, 1994 were accepted today (CUSIP: 912827H96).

The interest rate on the notes will be 4 5/8%. All competitive tenders at yields lower than 4.71% were accepted in full. Tenders at 4.71% were allotted 27%. All noncompetitive and sucessful competitive bidders were allotted securities at the yield of 4.71%, with an equivalent price of 99.840. The median yield was 4.68%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 4.65%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	36,340	36,340
New York	36,360,495	14,400,395
Philadelphia	28,410	28,410
Cleveland	110,605	110,605
Richmond	106,650	106,650
Atlanta	39,140	35,390
Chicago	1,379,210	236,010
St. Louis	60,405	60,405
Minneapolis	20,095	20,095
Kansas City	78,295	78,295
Dallas	18,185	18,185
San Francisco	495,275	65,225
Treasury	305,490	305,490
TOTALS	$39,038,595	$15,501,495

The $15,501 million of accepted tenders includes $1,045 million of noncompetitive tenders and $14,456 million of competitive tenders from the public.

In addition, $503 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $1,100 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-2110

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
December 22, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $24,800 million, to be issued December 31, 1992. This offering will provide about $ 2,825 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $21,987 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, December 28, 1992, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91 -day bills (to maturity date) for approximately $ 12,400 million, representing an additional amount of bills dated October 1, 1992 and to mature April 1, 1993 (CUSIP No. 912794 B7 8), currently outstanding in the amount of $10,285 million, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) for approximately $ 12,400 million, representing an additional amount of bills dated July 2, 1992 and to mature July 1, 1993 (CUSIP No. 912794 D7 6), currently outstanding in the amount of $ 14,992 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 December 31, 1992. 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 $ 2,345 million as agents for foreign and international monetary authorities, and $ 5,729 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 5176-1 (for 13-week series) or Form PD 5176-2 (for 26-week series).

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. 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. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. Adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76 as applicable, 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.

4/17/92

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
December 23, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $11,260 million of 5-year notes, Series U-1997, to be issued December 31, 1992 and to mature December 31, 1997 were accepted today (CUSIP: 912827J29).

The interest rate on the notes will be 6%. All competitive tenders at yields lower than 6.03% were accepted in full. Tenders at 6.03% were allotted 62%. All noncompetitive and sucessful competitive bidders were allotted securities at the yield of 6.03%, with an equivalent price of 99.872. The median yield was 5.97%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 5.90%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	33,173	33,173
New York	22,314,577	10,544,577
Philadelphia	19,820	19,820
Cleveland	44,012	44,012
Richmond	72,275	72,275
Atlanta	30,667	30,667
Chicago	1,155,329	225,829
St. Louis	31,701	31,701
Minneapolis	15,054	15,054
Kansas City	50,014	50,014
Dallas	16,769	16,769
San Francisco	551,609	51,569
Treasury	124,208	124,208
TOTALS	$24,459,208	$11,259,668

The $11,260 million of accepted tenders includes $870 million of noncompetitive tenders and $10,390 million of competitive tenders from the public.

In addition, $398 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $470 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

NB-2112

AUCTION RESULTS
PUBLIC DEBT NEWS
Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
December 28, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $12,401 million of 13-week bills to be issued December 31, 1992 and to mature April 1, 1993 were accepted today (CUSIP: 912794B78).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.18%	3.25%	99.196
High	3.24%	3.31%	99.181
Average	3.22%	3.29%	99.186

Tenders at the high discount rate were allotted 63%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	22,775	22,775
New York	27,906,830	10,838,080
Philadelphia	6,900	6,900
Cleveland	25,710	25,710
Richmond	31,015	31,015
Atlanta	29,085	29,085
Chicago	1,136,065	339,815
St. Louis	13,615	13,615
Minneapolis	7,090	7,090
Kansas City	24,580	24,580
Dallas	22,210	22,210
San Francisco	354,415	217,415
Treasury	822,215	822,215
TOTALS	$30,402,505	$12,400,505
Type		
Competitive	$25,438,900	$7,436,900
Noncompetitive	1,302,170	1,302,170
Subtotal, Public	$26,741,070	$8,739,070
Federal Reserve	2,829,035	2,829,035
Foreign Official Institutions	832,400	832,400
TOTALS	$30,402,505	$12,400,505

NB-2113

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
December 28, 1992

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $12,422 million of 26-week bills to be issued December 31, 1992 and to mature July 1, 1993 were accepted today (CUSIP: 912794D76).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	3.34%	3.45%	98.311
High	3.40%	3.51%	98.281
Average	3.38%	3.49%	98.291

Tenders at the high discount rate were allotted 36%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

Location	Received	Accepted
Boston	20,795	20,795
New York	29,532,135	11,567,460
Philadelphia	2,695	2,695
Cleveland	26,720	26,720
Richmond	34,360	34,360
Atlanta	21,220	21,220
Chicago	965,555	117,555
St. Louis	10,005	10,005
Minneapolis	7,185	7,185
Kansas City	20,790	20,790
Dallas	8,890	8,890
San Francisco	324,570	60,570
Treasury	524,130	524,130
TOTALS	$31,499,050	$12,422,375
Type		
Competitive	$27,109,920	$8,033,245
Noncompetitive	818,630	818,630
Subtotal, Public	$27,928,550	$8,851,875
Federal Reserve	2,900,000	2,900,000
Foreign Official Institutions	670,500	670,500
TOTALS	$31,499,050	$12,422,375

NB-2114

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 2:30 P.M.
December 29, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $ 24,800 million, to be issued January 7, 1993. This offering will provide about $ 2,525 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $ 22,267 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Monday, January 4, 1993, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders. The two series offered are as follows:

91-day bills (to maturity date) for approximately $ 12,400 million, representing an additional amount of bills dated April 9, 1992 and to mature April 8, 1993 (CUSIP No. 912794 B8 6), currently outstanding in the amount of $ 24,468 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $ 12,400 million, to be dated January 7, 1993 and to mature July 8, 1993 (CUSIP No. 912794 E7 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 7, 1993. 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 $ 1,353 million as agents for foreign and international monetary authorities, and $ 5,276 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 5176-1 (for 13-week series) or Form PD 5176-2 (for 26-week series).

NB-2115

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. 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. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. Adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76 as applicable, 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.

4/17/92

IN ADVANCE OF PRINTED COPY

Filing date: 12/24/92

Publication date: 12/30/92 4810-25-M

DEPARTMENT OF THE TREASURY

Office of Foreign Assets Control

31 CFR Part 500

Foreign Assets Control Regulations

12/24/92
11:30 am

AGENCY: Office of Foreign Assets Control, Treasury.

ACTION: Final Rule.

SUMMARY: As a further step in the process of normalization of relations between the United States and Vietnam, the Office of Foreign Assets Control ("FAC") is amending its regulations to authorize persons subject to U.S. jurisdiction to enter into contracts with Vietnam or Vietnamese nationals, or contracts in which Vietnam or Vietnamese nationals have an interest, the performance of which is contingent upon the lifting of the embargo on Vietnam, and to enter into commercial and financial transactions in connection with obtaining or preparing to perform such contracts.

EFFECTIVE DATE: December 14, 1992.

FOR FURTHER INFORMATION CONTACT: Steven I. Pinter, Chief of Licensing (tel.: 202/622-2480), Dennis P. Wood, Chief of Compliance Programs (tel.: 202/622-2490), or William B. Hoffman, Chief

Counsel (tel.: 202/622-2410), Office of Foreign Assets Control, Department of the Treasury, Washington, D.C. 20220.

SUPPLEMENTARY INFORMATION: In implementation of the President's announcement on December 14, 1992, FAC is amending the Foreign Assets Control Regulations, 31 C.F.R. Part 500 (the "FACR"), to add § 500.574, authorizing persons subject to U.S. jurisdiction to enter into executory contracts with Vietnam or Vietnamese nationals, or executory contracts in which Vietnam or a Vietnamese national has an interest, the performance of which cannot begin until the Vietnam embargo is lifted or modified to permit performance. The signing of each executory contract must be reported to FAC within 10 days. Financial transactions incident to the signature of these contracts, however, must be specifically licensed on a case-by-case basis.

Commercial and financial transactions necessary to obtaining and preparing to perform such executory contracts will be licensed on a case-by-case basis. Activities eligible for specific licensing include opening offices in Vietnam, hiring staff, writing and designing plans, carrying out preliminary feasibility studies and engineering and technical surveys, and import, export, and service transactions incident to the foregoing. Specific licenses issued pursuant to this section will require reporting to FAC on commercial and financial transactions entered into by the licensee.

Exports or reexports to Vietnam of goods and technical data or of the direct products of technical data (regardless of U.S. content), in connection with activities licensed by FAC may require authorization from the U.S. Department of Commerce pursuant to the Export Administration Regulations, 15 CFR Parts 768-799.

Because the FACR involve a foreign affairs function, Executive Order 12291 and the provisions of the Administrative Procedure Act, 5 U.S.C. 553, requiring notice of proposed rulemaking, opportunity for public participation, and delay in effective date, are inapplicable. Because no notice of proposed rulemaking is required for this rule, the Regulatory Flexibility Act, 5 U.S.C. 601 et seq., does not apply.

This rule is being issued without prior notice and public procedure pursuant to the Administrative Procedure Act. For this reason, the collection of information contained in FACR § 500.574 has been reviewed and, pending receipt and evaluation of public comments, approved by the Office of Management and Budget under control number 1505-0096. Comments concerning the average annual burden and suggestions for reducing this burden should be directed to the Office of Management and Budget, Paperwork Reduction Project, Washington, D.C. 20503, with copies to the Office of Foreign Assets Control, U.S. Department of the Treasury, 1500 Pennsylvania Avenue, N.W.--Annex, Washington, D.C. 20220. Any such comments should be submitted not later than 60 days from publication.

The collections of information in this rule are contained in FACR § 500.574(a). This information is required by the FAC for compliance, civil penalty, and enforcement purposes. This information will be used to facilitate U.S. financial and export transactions licensed pursuant to this final rule, to determine whether persons subject to the requirements of the FACR are in compliance with applicable requirements, and to determine whether and to what extent civil penalty or other enforcement action is appropriate. The likely respondents are business organizations.

Estimated total annual reporting and or recordkeeping burden: 200 hours.

The estimated annual burden per respondent/recordkeeper is expected to be one hour.

The estimated number of respondents and/or recordkeepers: 200.

Estimated annual frequency of responses: on occasion.

List of Subjects in 31 CFR Part 500:

Administrative practice and procedure, Banking, Exports, Foreign trade, Reporting and recordkeeping requirements, Services, Vietnam.

For the reasons set forth in the preamble, 31 CFR Part 500 is amended as follows:

PART 500--FOREIGN ASSETS CONTROL REGULATIONS

1. The authority citation for Part 500 continues to read as follows:

Authority: 50 U.S.C. App. 5, as amended; E.O. 9193, 7 FR 5205, 3 CFR 1938-1943 Cum. Supp., p. 1174; E.O. 9989, 13 FR 4891, 3 CFR 1943-1948 Comp., p. 748.

Subpart E--Licenses, Authorizations and Statements of Licensing Policy

2. Section 500.574 is added to subpart E to read as follows:

§ 500.574 Executory contracts and related transactions authorized.

(a) *Executory Contracts.* (1) Persons subject to U.S. jurisdiction are authorized to enter into executory contracts with Vietnam or Vietnamese nationals, or executory contracts in which Vietnam or a Vietnamese national has an interest, the performance of which is contingent upon the lifting or modification of the embargo on Vietnam to permit such performance.

(2) Within 10 business days of signing an executory contract authorized pursuant to paragraph (a) of this section, the person subject to U.S. jurisdiction must file a copy of the contract with the Office of Foreign Assets Control, Compliance Programs Division, 1500 Pennsylvania Avenue, N.W.--Annex 2131, Washington, D.C. 20220, referencing the fact that the contract was entered into pursuant to 31 CFR 500.574(a).

(3) Specific licenses will be issued on a case-by-case basis to authorize financial transactions such as the payment of deposits, earnest money, signing bonuses, and administrative and registration fees incident to the signature of specific executory contracts authorized

pursuant to paragraph (a)(1) of this section. The number of the pertinent license must be referenced in all funds transfers and other banking transactions through banks subject to U.S. jurisdiction made in connection with the contract.

(b) *Preparatory Transactions*. (1) Specific licenses will be issued authorizing commercial and financial transactions necessary to obtaining and preparing to perform executory contracts authorized pursuant to paragraph (a)(1) of this section. These commercial and financial transactions include:

(i) Opening offices in Vietnam;

(ii) Hiring staff;

(iii) Writing and designing plans;

(iv) Carrying out preliminary feasibility studies and engineering and technical surveys; and

(v) Import, export, and service transactions incident to the foregoing.

(2) Specific licenses issued pursuant to paragraph (b)(1) of this section will, to the extent feasible, encompass commercial and financial transactions incident to the licensed commercial purpose or activity.

NOTE: Exports or reexports to Vietnam of goods and technical data, or of the direct products of technical data (regardless of U.S. content), in connection with activities licensed by FAC may require authorization from the U.S. Department of Commerce pursuant to the Export Administration Regulations, 15 CFR Parts 768-799.

(3) The number of the pertinent license must be referenced in all funds transfers and other banking transactions through banks subject to U.S. jurisdiction in connection with preparatory transactions under paragraphs (b)(1) and (2) of this section.

Dated: December 23, 1992

R. Richard Newcomb
Director
Office of Foreign Assets Control

Approved: December 23, 1992

JOHN P. SIMPSON
~~Peter K. Nunez,~~
Acting Assistant Secretary (Enforcement).

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR IMMEDIATE RELEASE
December 30, 1992

CONTACT: Scott Dykema
(202) 622-2960

U.S. COMMITS $200 MILLION TO POLISH BANK PRIVATIZATION FUND

The United States has agreed to transfer nearly $200 million into a new multilateral fund designed to help Poland privatize its banking system. The funds come from the multilateral Polish currency stabilization fund established in 1989.

"This new fund will allow Poland to reform and privatize its banking sector, which should significantly contribute to the country's economic growth," said Deputy Treasury Secretary John E. Robson, who signed an agreement committing the funds in a ceremony with Polish Ambassador Kazimierz Dziewanowski.

The bilateral agreement just signed commits $199.14 million in previously appropriated U.S. funds to the Polish Bank Privatization Fund (PBPF). The PBPF is a multilateral fund that will help the Polish government dramatically reform its banking sector. The current total of pledges to the fund, including the money from the United States, is about $480 million.

Earlier this year, a number of major contributors to the Polish Stabilization Fund (PSF) agreed to channel their contributions in the PSF to a new purpose: to assist the recapitalization and privatization of Poland's state-owned commercial banks. The PSF, which is scheduled to terminate on January 4, 1993, was established in 1989 to support the convertibility and stabilization of the Polish zloty.

The PBPF will be used to pay interest and principal on Polish government-issued bonds held by the newly-privatized banks. The conditions for use of PBPF resources are contained in a Memorandum of Understanding between Poland and PBPF contributors. These conditions include privatization of the state-owned banks holding the bonds.

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NB-2116

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press 202-622-2960
FFB 202-622-2450

For Immediate Release December 31, 1992

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of November 1992.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $156.6 billion on November 30, 1992, posting a decrease of $3,320.0 million from the level on October 31, 1992. This net change was the result of decreases in holdings of agency debt of $3,251.7 million, in holdings of agency assets of $0.1 million, and in holdings of agency-guaranteed loans of $68.2 million. FFB made 41 disbursements in November.

Attached to this release are tables presenting FFB November loan activity and FFB holdings as of November 30, 1992.

NB-2117

FEDERAL FINANCING BANK
NOVEMBER 1992 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (not semi-annual)
AGENCY DEBT					
UNITED STATES POSTAL SERVICE					
USPS #42	11/12	$1,000,000,000.00	10/31/94	4.676%	
USPS #43	11/12	1,500,000,000.00	10/31/97	6.307%	
USPS #44	11/12	1,500,000,000.00	8/15/02	7.367%	
USPS #45	11/12	1,000,000,000.00	11/30/07	7.615%	
GOVERNMENT - GUARANTEED LOANS					
GENERAL SERVICES ADMINISTRATION					
Chicago Office Building	11/5	169,800.00	6/28/21	7.424%	
ICTC Building	11/12	341,341.42	11/15/93	3.751%	
Foley Courthouse Building	11/16	6,309,667.00	12/11/95	5.300%	
ICTC Building	11/16	82,651,954.98	11/15/93	3.807%	
ICTC Building	11/23	169,960.00	11/15/93	3.885%	
Memphis IRS Service Center	11/24	438,067.51	1/3/95	4.906%	
Miami Law Enforcement	11/24	1,902,791.00	7/1/93	3.731%	
ICTC Building	11/25	4,062,010.17	11/15/93	3.810%	
RURAL ELECTRIFICATION ADMINISTRATION					
Brunswick Electric #370	11/2	1,963,000.00	12/31/26	7.526%	7.457% qtr.
@Pacific Northwest #118	11/6	3,121,542.82	12/31/12	7.088%	7.026% qtr.
@Pacific Northwest #118	11/6	2,307,541.36	12/31/12	7.088%	7.026% qtr.
@Pacific Northwest #118	11/6	1,103,287.79	12/31/13	7.130%	7.068% qtr.
@Pacific Northwest #118	11/6	1,885,859.53	12/31/13	7.130%	7.068% qtr.
@Pacific Northwest #118	11/6	1,241,058.83	12/31/13	7.130%	7.068% qtr.
@Pacific Northwest #118	11/6	2,114,253.03	12/31/13	7.130%	7.068% qtr.
@San Miguel Electric #110	11/6	79,117,952.50	4/2/01	6.121%	6.075% qtr.
@San Miguel Electric #110	11/6	5,350,462.12	12/31/12	7.088%	7.026% qtr.
@San Miguel Electric #110	11/6	7,474,104.37	12/31/12	7.088%	7.026% qtr.
@San Miguel Electric #110	11/6	9,342,426.50	12/31/12	7.088%	7.026% qtr.
@San Miguel Electric #110	11/6	18,890,340.04	12/31/13	7.130%	7.068% qtr.
@San Miguel Electric #110	11/6	11,353,148.50	12/31/13	7.130%	7.068% qtr.
@San Miguel Electric #110	11/6	9,460,957.24	12/31/13	7.130%	7.068% qtr.
@San Miguel Electric #110	11/6	16,882,246.33	12/31/13	7.130%	7.068% qtr.
@W. Farmer Electric #022	11/6	7,539,062.44	12/31/09	6.948%	6.889% qtr.
@W. Farmer Electric #064	11/6	5,345,044.35	1/3/12	7.043%	6.982% qtr.
@W. Farmer Electric #064	11/6	1,421,381.62	12/31/12	7.088%	7.026% qtr.
@W. Farmer Electric #064	11/6	3,029,244.97	12/31/13	7.130%	7.068% qtr.
@W. Farmer Electric #064	11/6	648,055.02	12/31/13	7.130%	7.068% qtr.

@interest rate buydown

FEDERAL FINANCING BANK
NOVEMBER 1992 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE (semi-annual)	INTEREST RATE (not semi-annual)
RURAL ELECTRIFICATION ADMINISTRATION (CONTINUED)					
@W. Farmer Electric #126	11/6	$ 181,122.19	12/31/13	7.130%	7.068% qtr.
@W. Farmer Electric #126	11/6	960,081.61	12/31/13	7.130%	7.068% qtr.
@W. Farmer Electric #133	11/6	21,458,141.25	12/31/13	7.130%	7.068% qtr.
@W. Farmer Electric #133	11/6	13,561,153.95	12/31/13	7.130%	7.068% qtr.
@San Miguel Electric #110	11/12	9,463,408.19	12/31/13	7.192%	7.128% qtr.
Southern Mississippi #090A	11/24	3,229,000.00	12/31/12	7.056%	6.995% qtr.
United Power Assoc. #129A	11/24	1,450,000.00	1/3/22	7.176%	7.113% qtr.
Oconto Electric #369	11/27	500,000.00	12/31/25	7.442%	7.374% qtr.
TENNESSEE VALLEY AUTHORITY					
Seven States Energy Corporation					
Note A-93-2	11/30	473,283,047.13	2/26/93	3.440%	

@interest rate buydown

FEDERAL FINANCING BANK
(in millions)

Program	November 30, 1992	October 31, 1992	Net Change 11/1/92-11/30/92	FY '93 Net Change 10/1/92-11/30/92
Agency Debt:				
Export-Import Bank	$ 7,692.5	$ 7,692.5	$ 0.0	$ 0.0
Federal Deposit Insurance Corporation	10,160.0	10,160.0	0.0	0.0
NCUA-Central Liquidity Fund	0.0	0.0	0.0	0.0
Resolution Trust Corporation	38,498.5	42,086.7	-3,588.2	-8,037.4
Tennessee Valley Authority	6,975.0	7,175.0	-200.0	-200.0
U.S. Postal Service	10,439.9	9,903.4	536.5	536.5
sub-total*	73,765.9	77,017.6	-3,251.7	-7,700.9
Agency Assets:				
Farmers Home Administration	42,979.0	42,979.0	0.0	0.0
DHHS-Health Maintenance Org.	55.2	55.2	0.0	0.0
DHHS-Medical Facilities	64.3	64.3	0.0	0.0
Rural Electrification Admin.-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	3.9	4.0	-0.1	-0.2
sub-total*	47,701.3	47,701.4	-0.1	-0.2
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	4,317.6	4,337.9	-20.3	-26.6
DEd.-Student Loan Marketing Assn.	4,790.0	4,790.0	0.0	-30.0
DEPCO-Rhode Island	104.0	104.0	0.0	-21.0
DHUD-Community Dev. Block Grant	169.2	170.2	-1.0	-5.2
DHUD-Public Housing Notes +	1,801.0	1,853.2	-52.3	-52.3
General Services Administration +	907.7	895.8	11.9	130.9
DOI-Guam Power Authority	27.0	27.0	0.0	0.0
DOI-Virgin Islands	23.7	23.7	0.0	0.0
DON-Ship Lease Financing	1,576.2	1,576.2	0.0	0.0
Rural Electrification Administration	18,172.5	18,171.9	0.6	29.5
SBA-Small Business Investment Cos.	126.0	134.4	-8.4	-17.4
SBA-State/Local Development Cos.	625.6	629.3	-3.7	-8.1
TVA-Seven States Energy Corp.	2,275.2	2,269.9	5.4	-141.5
DOT-Section 511	18.7	19.1	-0.4	-0.4
DOT-WMATA	177.0	177.0	0.0	0.0
sub-total*	35,111.4	35,179.6	-68.2	-142.3
	=========	=========	========	========
grand-total*	$156,578.5	$159,898.5	$-3,320.0	$-7,843.4

*figures may not total due to rounding
+does not include capitalized interest

TREASURY NEWS

Department of the Treasury Washington, D.C. Telephone 202-622-2960

FOR RELEASE AT 12:00 NOON
December 31, 1992

CONTACT: Office of Financing
202-219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $14,750 million of 364-day Treasury bills to be dated January 14, 1993 and to mature January 13, 1994 (CUSIP No. 912794 H4 9). This issue will provide about $ 1,900 million of new cash for the Treasury, as the maturing 52-week bill is outstanding in the amount of $ 12,840 million. Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20239-1500, Thursday, January 7, 1993, prior to 12:00 noon for noncompetitive tenders and prior to 1:00 p.m., Eastern Standard time, for competitive tenders.

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 14, 1993. In addition to the maturing 52-week bills, there are $ 23,042 million of maturing bills which were originally issued as 13-week and 26-week bills. The disposition of this latter amount will be announced next week. Federal Reserve Banks currently hold $ 2,026 million as agents for foreign and international monetary authorities, and $ 8,189 million for their own account. These amounts represent the combined holdings of such accounts for the three 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 $ 430 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 5176-3.

NB-2118

Each bid must state the par amount of bills bid for, which must be a minimum of $10,000. Bids over $10,000 must be in multiples of $5,000. A bidder submitting a competitive bid for its own account, whether bidding directly or submitting bids through a depository institution or government securities broker/dealer, may not submit a noncompetitive bid for its own account in the same auction.

Competitive bids must show the discount rate desired, expressed in two decimal places, e.g., 7.10%. Fractions may not be used. A single bidder, as defined in Treasury's single bidder guidelines, may submit competitive tenders at more than one discount rate, but the Treasury will not recognize, at any one rate, any bid in excess of 35 percent of the public offering. A competitive bid by a single bidder at any one rate in excess of 35 percent of the public offering will be reduced to the 35 percent limit. The public offering for any one bill is the amount offered for sale in the offering announcement, less bills allotted to Federal Reserve Banks for their own account and for the account of foreign and international authorities in exchange for maturing bills.

Noncompetitive bids do not specify a discount rate. A single bidder should not submit a noncompetitive bid for more than $1,000,000. A noncompetitive bid by a single bidder in excess of $1,000,000 will be reduced to that amount. A bidder may not submit a noncompetitive bid if the bidder holds a position, in the bills being auctioned, in "when-issued" trading or in futures or forward contracts. A noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the bills being auctioned, nor may it commit to sell the bills prior to the designated closing time for receipt of competitive bids.

The following institutions may submit tenders for accounts of customers: depository institutions, as described in Section 19(b)(1)(A), excluding those institutions described in subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)); and government securities broker/dealers that are registered with the Securities and Exchange Commission or noticed as government securities broker/dealers pursuant to Section 15C(a)(1) of the Securities Exchange Act of 1934. Others are permitted to submit tenders only for their own account.

For competitive bids, the submitter must submit with the tender a customer list that includes, for each customer, the name of the customer and the amount and discount rate bid by each customer. A separate tender and customer list should be submitted for each competitive discount rate. Customer bids may not be aggregated by discount rate on the customer list.

For noncompetitive bids, the customer list must provide, for each customer, the name of the customer and the amount bid. For mailed tenders, the customer list must be submitted with the

tender. For other than mailed tenders, the customer list should accompany the tender. If the customer list is not submitted with the tender, information for the list must be complete and available for review by the deadline for submission of noncompetitive tenders. The customer list must be received by the Federal Reserve Bank by auction day.

All bids submitted on behalf of trust estates must identify on the customer list for each trust estate the name or title of the trustee(s), a reference to the document creating the trust with date of execution, and the employer identification number of the trust.

A competitive bidder must report its net long position in the bill being offered when the total of all its bids for that bill and its net long position in the bill equals or exceeds $2 billion, with the position to be determined as of one half-hour prior to the closing time for the receipt of competitive tenders. A net long position includes positions, in the bill being auctioned, in when-issued trading and in futures and forward contracts, as well as holdings of outstanding bills with the same CUSIP number as the bill being offered. Bidders who meet this reporting requirement and are customers of a depository institution or a government securities broker/dealer must report their positions through the institution submitting the bid on their behalf. A submitter, when submitting a competitive bid for a customer, must report the customer's net long position in the security being offered when the total of all the customer's bids for that security, including bids not placed through the submitter, and the customer's net long position in the security equals or exceeds $2 billion.

Tenders from bidders who are making payment by charge to a funds account at a Federal Reserve Bank and tenders from bidders who have an approved autocharge agreement on file at a Federal Reserve Bank will be received without deposit. Full payment for the par amount of bills bid for must accompany tenders from all others, including tenders for bills to be maintained on the book-entry records of the Department of the Treasury. An adjustment will be made on all accepted tenders accompanied by payment in full for the difference between the payment submitted and the price determined in the auction.

Public announcement will be made by the Department of the Treasury of the amount and discount rate range of accepted bids for the auction. In each auction, noncompetitive bids for $1,000,000 or less without stated discount rate from any one bidder will be accepted in full at the weighted average discount rate (in two decimals) of accepted competitive bids. Competitive bids will then be accepted, from those at the lowest discount rates through successively higher discount rates, up to the amount required to meet the public offering. Bids at the highest accepted discount rate will be prorated if necessary. Each successful competitive bidder

will pay the price equivalent to the discount rate bid. Noncompetitive bidders will pay the price equivalent to the weighted average discount rate of accepted competitive bids. 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. 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.

No single bidder in an auction will be awarded bills in an amount exceeding 35 percent of the public offering. The determination of the maximum award to a single bidder will take into account the bidder's reported net long position, if the bidder has been required to report its position.

Notice of awards will be provided to competitive bidders whose bids have been accepted, whether those bids were for their own account or for the account of customers. No later than 12:00 noon local time on the day after the auction, the appropriate Federal Reserve Bank will notify each depository institution that has entered into an autocharge agreement with a bidder as to the amount to be charged to the institution's funds account at the Federal Reserve Bank on the issue date. Any customer that is awarded $500 million or more of securities in an auction must furnish, no later than 10:00 a.m. local time on the day after the auction, written confirmation of its bid to the Federal Reserve Bank or Branch where the bid was submitted. If a customer of a submitter is awarded $500 million or more through the submitter, the submitter is responsible for notifying the customer of the bid confirmation requirement.

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 by the issue date, by a charge to a funds account or pursuant to an approved autocharge agreement, in cash or other immediately-available funds, or in definitive Treasury securities maturing on or before the settlement date but which are not overdue as defined in the general regulations governing United States securities. Also, maturing securities held on the book-entry records of the Department of the Treasury may be reinvested as payment for new securities that are being offered. Adjustments will be made for differences between the par value of the maturing definitive securities accepted in exchange and the issue price of the new bills.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76 as applicable, 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.

4/17/92