U.S. Department of the Treasury

PRESS RELEASES

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
June 1, 1994

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BENTSEN NAMES BEERBOWER TO KEY TAX POLICY POST

Treasury Secretary Lloyd Bentsen today appointed Cynthia G. Beerbower as Deputy Assistant Treasury Secretary for Tax Policy, replacing Samuel Y. Sessions.

Beerbower, who had been Treasury's international tax counsel, takes over her new responsibilities June 13. Until a replacement is found, however, Beerbower will remain in charge of the international tax office.

Sessions resigned from his post to begin pre-medical studies this summer at Goucher College in Baltimore, Md. Before serving at Treasury, Sessions had been the chief tax counsel on the Senate Finance Committee and before that was an aide to then-Senator Bentsen.

Before joining Treasury last August, Beerbower was a partner in the New York law firm of Simpson, Thacher and Bartlett. She joined the firm in 1977 as an associate.

Beerbower, 44, has an LL.B. with honors from Cambridge University, a J.D. from Boston University and a B.A. magna cum laude from Mount Holyoke College.

She is married to John E. Beerbower. They have a son and a daughter.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

Adv. 1:15 p.m. (8:15 a.m. EDT)
Text as prepared for delivery
June 3, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
CONSOLIDATED BRITISH INDUSTRY
LONDON, ENGLAND

I've been looking forward to joining you today because I believe we have a number of shared interests -- such as investment, and trade, economic security, growth and shared prosperity. I want to spend a few minutes discussing those with you today. But first, I want to look back about 15 months. That's the last time I was in London. A great deal has changed since then as far as the United States is concerned.

I'd barely had a chance to hang pictures in my office when I found myself in London for a G-7 meeting. It was one of those fly-in on the overnight, then fly-out almost immediately sort of meetings. It gave me a taste of the sort of jet lag I was in for with this job.

At any rate, my colleagues wanted to know if the Clinton Administration was serious about what we had in mind for the economy -- deficit reduction, creating jobs, turning things around. The proof of the pudding is in the eating -- or in the figures in this case.

We have turned things around. Our deficit is coming down, and far faster than we thought at the outset. That's a major relief to our businesses, and I suspect to yours, since we're freeing up capital for investment.

In addition, we've created nearly 3 million new jobs since taking office at last count, and new figures are coming out later today. We're well on the way to the 8 million we are hoping for.

Inflation does not seem to be a factor now. It looks like it will stay that way for some time. As you're well aware, it's always a challenge to turn an economy around, restore growth, and then sustain it without touching off inflation.

Beyond holding inflation in check, we've restored a very steady, solid growth rate to our economy. The fundamentals of our economy are in great shape. I haven't seen it like this in 20 years.

That's quite a turnaround. And I'd note that England's economy is on the way back, and it looks like the rest of Europe may not be too far behind. That's very encouraging.

From what things looked like 15 months ago when I first visited London as Secretary, there's been considerable improvement -- everywhere.

Some of this is due to our shared commitment to do what is necessary to get recovery behind us. It's shared progress on interest rates, progress on bringing down deficits, progress on bringing down unemployment, progress in restoring growth -- all signs that the recession truly is being broken.

We have more in common than shared progress. That shared progress is, in fact, to a large degree the result of a partnership -- a business partnership that has evolved from our personal relationship. Look at the growth each of our nations is enjoying. It is encouraged and assisted by our mutual willingness to invest in one another's ideas. Being both friends and partners has been good for both of us.

Those of you who follow where money is flowing know that Japan had the largest investment in the United States in 1992. But the recession in Japan has meant a significant drop in what they're investing. The preliminary numbers show that UK investment in the United States is up by nearly $10 billion for 1993, with total investment of well over $104 billion, again exceeding Japan.

If you look at our economy, there's nearly $420 billion in foreign direct investment in the United States. And we have invested nearly $490 billion abroad -- the largest single share of it here in the United Kingdom. That's a clear sign of our faith in this economy.

Here, in Great Britain, foreign-owned firms account for nearly 14 percent of the assets, and almost a quarter of all sales, and 15 percent of all employment. In the United States, it is about 18 percent of assets, 16 percent of sales, and almost 11 percent of employment.

There's a very clear reason for the high levels of investment, and that's our shared commitment to open economies. Globally, the more open economies are, the better off we all are. If you take Japan, for example, under 1 percent of the assets in Japan are in foreign-owned firms, just 1.2 percent of the sales come from that, and one-half of one percent of Japan's employment is attributable to foreign direct investment.

That's why we're working hard to open markets and liberalize opportunities for investment. Last week the Japanese agreed to resume our discussions about opening their markets to the products of all nations.

We have a solid trading relationship -- have had for a long time. Just as is the case in investment, it is also the case with trade. Openness is better.

I have asked our Congress to move rapidly to put the Uruguay Round of the General Agreement on Tariffs and Trade into force for a number of reasons. First, I want the effects of the Uruguay Round to take hold in our economy as quickly as possible. I won't go through the numbers here today, but they are substantial. I also have asked Congress to move quickly because, quite frankly, this is an issue of leadership.

You may be aware that while the agreement will generate far more in revenue for my government than we will lose from lowering tariffs, we are on a pay-as-you-go basis insofar as the budget is concerned. We must find ways to raise revenues to replace what we will lose, and as the Prime Minister and any politician knows, none of the choices are easy ones to make.

However, this is largely a procedural hurdle that we face. This isn't at all like the scrap we had on NAFTA. Opposition has not mobilized the way it did with NAFTA. But the longer we wait, the more time an opponent has to organize. We'll deal with the issue of replacing revenues. We'll get past that. The President and I are committed to having the Uruguay Round in effect as quickly as possible -- well before the European Union ratification process is complete.

We all want the Uruguay Round for what it will do for sharing prosperity, spreading prosperity -- encouraging recovery and growth, encouraging development throughout the world.

One final point on the Uruguay Round from the business perspective. I asked our economists to take a look at what the Uruguay Round means in terms of a tax cut for businesses and consumers all over the world. They told me that the Uruguay Round means a tax cut among industrial countries of about $975 billion between 1995 and 2004 -- that's nearly $1 trillion. The economists also report that if you factor in developing countries, where imports are generally smaller but tariffs are higher, then it amounts to a global tax cut of between $1.5 trillion and $2 trillion over the next decade.

Encouraging growth, sharing and spreading prosperity and the economic security that will create is the other issue on which I'd like to focus.

I've looked back over the past 15 months, and if you'll permit me, I'd like to look back over the past 50 years just briefly, in the context of security.

In 1944 and 1945, the challenge of my generation was, quite simply, to win the war. We had to turn out a ship a day, 8,000 planes a month. Our nations sacrificed heavily -- in men, in materiel -- to achieve our victory for democracy. It was a victory as much of ideals and ideas as it was a military success. Afterwards, while Western Europe was rebuilt, the challenge was to wait out communism, preserve the peace.

We have now reached a new era, with new challenges. It's time to focus on sharing prosperity, because prosperity -- and the economic security that flows from it -- is as critical to our future as the ability to turn auto plants into tank plants.

In Europe, nowhere is it more important to share prosperity, and encourage economic security, than in the nations of the East whose economies were cruelly abused for so long.

Substantive progress has been made in some areas -- like Poland, where the real growth rate is 4 or 5 percent for two years running, where the private sector now accounts for half of the national output. There has been progress in Russia, enough so that the International Monetary Fund released a second loan of $1.5 billion. Inflation is down, but it must come down more. Let me also add here a word of congratulations for the EBRD and President Jacques de Larosiere. He has streamlined the bank and put more people in the field where their impact is the greatest. The bank can now better assist the transition to market economies and encourage private enterprise in the region.

There is much more that must be done. Investment flows where the conditions are right. Throughout the region budget deficits need to come down. Financial systems must be revamped and strengthened. Contract law must be strengthened.

This will not be an overnight undertaking. We, and the people of Central and Eastern Europe, and Russia, must have patience. In time, the economic reforms that must be accomplished will help share prosperity and sustain democracy. And economic security will sustain and reinforce national security throughout the world.

The United States is committed to encouraging growth and sharing prosperity, both because it is our nature and because it is in our interest. Our economy gains because it means prosperity for Americans as growth occurs elsewhere and markets for our products are broadened. It translates directly into jobs for our citizens.

Obviously, it also means greater stability in the areas of Europe that are now working to put market principles to work in their economies. But beyond that, it means a contribution to greater peace and stability -- in Jericho, and in Capetown. Stable, healthy economies are a path to peace, not a cause for conflict.

In addition, shared prosperity encourages freedom. Most of the wealthier nations are democratic, and have the broadest human rights. One of the reasons President Clinton decided to renew MFN status for China was that denying that special trade status made no contribution to improving the life of the Chinese people, but continuing MFN status offers that promise. And an improving economic status can encourage greater economic and political freedom. We will, of course, continue to work both directly, and with others, to convince China that greater human rights are a necessity.

If growth and sharing prosperity is our goal, the question is how do we achieve it? The Clinton Administration has taken on this new challenge aggressively because of its importance not only to our economy but also to those of other nations as well.

Putting our economy on a sound footing was the first response. It was a prerequisite. We cannot hope to influence the broader global economy in a positive way unless our own economy is healthy. We have also encouraged others to do as we have done.

Second, because open markets can create prosperity for all, we have pressed our case with Japan, with our neighbors through the North American Free Trade Agreement, and globally through the Uruguay Round.

Third, to strengthen growth and address our common problems, we are coordinating our policies on a number of fronts through a variety of multilateral arrangements -- the G-7, the G-10, the APEC organization, even NATO and its Partnership for Peace. I would point out that the decline in defense spending that the new national security picture permits frees up resources for economic security in many nations.

Fourth, we have begun pressing the international financial institutions to make better use of their monies, to support rather than supplant the private sector, to pay more attention to human development as an ingredient in national economic development, to promote development from the bottom up.

As part of this approach, we have recognized our responsibility to catch up on our contributions to the development banks. They are such a critical element -- in Europe, in Asia and the Pacific, in Africa, and in the Americas -- and we must meet our obligations there.

The past half century has seen prosperity explode, in the United States, among the rest of the major industrialized world. It's amazing to think how far we've come in the United States in 50 years. In those days, only one family in three had even one car. Today, if there's a teenager in the family, more than likely one family has three cars. Today, countries which began from bases that might better fit the definition of the developing world are now important economic powers.

Real per capita incomes today in the OECD nations are about $20,000 a year, but it's one-twentieth that in the East Asian countries under communist rule, and the same in sub-Saharan Africa. It's one-eighth that in Latin America, the Middle East and North Africa, and one-tenth that in the market economies of Pacific Asia, other than Japan.

The challenge is clear -- to create growth and share prosperity, to improve lives, and to provide economic security. The United States is committed to meeting that challenge.

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Adv. 1:15 p.m. (8:15 a.m. EDT)
June 3, 1994

BENTSEN DISCUSSES U.S.-U.K. RELATIONS, GLOBAL GROWTH

LONDON, England -- Treasury Secretary Lloyd Bentsen said Friday the world's new challenge is to share the prosperity and economic security that growth can bring.

"We have reached a new era, with new challenges," Bentsen said in remarks prepared for delivery to the Confederation of British Industry, an organization of the UK's largest businesses.

"It's time to focus on sharing prosperity, because prosperity -- and the economic security that flows from it -- is as critical to our future as the ability to turn auto plants into tank plants," add Bentsen, a World War II veteran in England to participate in D-Day commemorative activities.

"The Clinton Administration has taken on this new challenge aggressively because of its importance not only to our economy but also to those of other nations as well," he said.

"The United States is committed to encouraging growth and sharing prosperity, both because it is our nature and because it is in our interest. Our economy gains because it means prosperity for Americans as growth occurs elsewhere and markets for our products are broadened. It translates directly into jobs for our citizens," Bentsen said.

Bentsen said that in Europe nowhere is it more important to "share prosperity, and encourage economic security, than in the nations of the East whose economies were cruelly abused for so long." He said that economic security in that region can underscore and support national security for Europe.

The Treasury Secretary outlined the manner in which the United States is encouraging growth and shared prosperity, with more open markets through the Uruguay Round and other vehicles, through the activities of the multilateral development banks, and even by bringing down U.S. deficits because setting the U.S. economic house in order, he said, frees up money for investments that can produce growth.

(OVER)

Bentsen also reviewed similarities in the U.S. and U.K. economies, and noted their openness has led to significant investment flows Great Britain, he said, resumed its place as the largest investor in the United States in 1993, with a total of $104.5 billion in foreign direct investment, according to preliminary figures. Japan led in 1992.

He noted that foreign-owned firms account for nearly 14 percent of all employment in Great Britain, and 11 percent in the United States, largely because of their open economies. But in Japan, he said, where just 1 percent of assets are foreign owned -- as opposed to 14 percent in Great Britain and 18 percent in the United States -- one-half of one percent of employment is attributable to foreign firms.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Adv 10 a.m. (5 a.m. EDT)
Text as prepared for delivery
June 4, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
CAMBRIDGE AMERICAN CEMETERY AND MEMORIAL
CAMBRIDGE, ENGLAND

President Clinton, Prime Minister Major, distinguished guests, and fellow airmen, here listening, or here at rest.

War is a terrible thing, but at times necessary. It places demands on men and women, who must fight and sometimes die, on families who must wait and hope, and on nations, which must divert their resources to the weapons of war, as we did 50 years ago.

Today we honor those who flew, and those who supported them. They paid a terrible price -- nearly 44,000 dead or missing in the Eighth Air Force alone.

Here in England -- as we did at every airfield and on every front -- boys grew into men far too fast. Here, airfields operated 24 hours a day, the Americans flying by day, and the British by night. They circled these green fields and assembled, heading for Europe in formation. Coming back, they were strung out across the Channel, fewer in number -- a feathered prop, a smoking engine, holes in the fuselage where a gunner once stood. A red flare arcing up on the approach to bring the medics for the wounded. And green ... green flares for those who beat the odds, made their 35 missions.

They squeezed the oxygen hoses to break up frozen breath clogging their face masks. They cranked down their landing gear by hand because the hydraulics were shot out. The ground crews cheered when their plane made it home.

(MORE)

LB-863

That's how it was on the way out and the way back. At the target, a pilot six feet tall at the start would be 5 feet at the end from squeezing down in the seat. The flack would come up in black clouds. That flak gear -- every flyer wished it was a suit, not a vest. Planes disintegrated in flight, a shell through the wing tank. One minute a plane's out front. The next, the one behind is flying through the debris, counting parachutes, praying they're not next.

Scared? Of course. Anyone who wasn't was either a fool or had no imagination. But they pressed on. It was love of country, and all it stood for, home, family, because it was expected of them. And it was the knowledge that the nation was pulling together, every family and friend, every farm and factory.

Numbing fatigue. Faceless danger. Fiery death. These were an airman's constant companions. In the face of this, these men not only flew and fought, they soared and triumphed. Many never had the chance to walk the land their sacrifice helped liberate. But they live on today on the wings of our dreams -- dreams of freedom. Ever vigilant, courageous, heroes every one. May they rest in peace.

Those of us who flew had a job -- take control of the air, shut down the industries, destroy the fuel supplies and refineries, cut the supply lines, support the landings. That took considerable time -- two years of work before the invasion.

With us much of the way were men like Ed MacLean, a P-47 pilot who logged 95 missions during that long war.

Men like Ed MacLean took on extraordinary risks, alone, so that Europe could be freed. He flew escort missions for our bombers, shepherded our gliders to Normandy, and supported the 3rd Army. He earned the Distinguished Flying Cross, and the Air Medal with 16 clusters. Ed, on behalf of every bomber pilot who enjoyed the protection our fighter planes, thank you. Ladies and Gentlemen, Ed MacLean.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
JUNE 7, 1994

OPENING STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN
OECD PRESS CONFERENCE
PARIS, FRANCE

Good morning. The economic picture has changed significantly since I was last here. The U.S. economy is doing quite well. The deficit's down, steady growth is back, we're creating jobs, and inflation is not a threat. We can also now see signs of recovery elsewhere in the industrial world, the prospects in developing areas are encouraging, and the worst may be over in the reforming countries of central and eastern Europe.

However, we cannot relax. Japan and Europe must strengthen their recoveries. And it will take more than interest rate cuts or fiscal support for recovery. It will require structural reforms -- the kind that encourage employers to add jobs, not make it too costly to be worthwhile.

We had a draft study on employment and unemployment at the G-7 jobs conference in Detroit and it clearly shows how better policies can help create jobs. I hope the OECD keeps up this kind of work and gives us some specific policy recommendations.

There has been significant progress in the past year, but the challenge now is to ensure that the recovery in industrial countries spreads and strengthens.

Two other very quick points. I want to let you know the United States is committed to have the Uruguay Round approved this year, so it can be implemented by January 1, 1995. It's important to our growth. I can tell you that the Europeans and Japanese are as committed to this as we are.

And last, we are today resuming our financial services discussions with Japan under the framework. This is a real priority for us. I find it encouraging as far as the framework is concerned that we're back to talking again. That's a good sign.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

Adv. 10:30 a.m. (4:30 a.m. EDT)
Text as Prepared for Delivery
June 7, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN ON PROMOTING GROWTH AND EMPLOYMENT OECD MINISTERIAL MEETING PARIS, FRANCE

Chairman Ahern, Secretary-General Paye, fellow delegates: When we met last year, the outlook was uncertain. The U.S. recovery was underway, but job creation was very slow. Congress was still discussing deficit reduction. Europe and Japan were in the grip of recession. The Uruguay Round was still under negotiation.

Today, some of these clouds have been lifted. The U.S. recovery has strengthened. Our growth rate is solid and steady. Our economy has created more than 2 million jobs over the last year. President Clinton's program to reduce our budget deficits by $500 billion over five years is in place. And, despite a strong recovery, inflation remains subdued. I haven't seen the fundamentals of our economy this solid in 20 years.

In other parts of the industrial world, signs of recovery are becoming evident. The Uruguay Round has been successfully concluded. There is increasing optimism about sustaining the gains made in recent years in reducing inflation.

Economic prospects in other areas look better too. Growth in the developing countries in Asia remains impressive. Reforms that encourage and enhance growth are spreading in Latin America. The worst of the transition may be over in the reforming countries of eastern and central Europe.

But we must not relax. Recovery in continental Europe remains tentative, and employment is likely to decline again this year. There are signs that a recovery in Japan may be at hand, but strong domestic demand-led growth is not yet in sight.

(MORE)

LB-865

Both Japan and Europe must act to strengthen their recoveries. This is essential to having balanced, sustainable expansion in the OECD. It is absolutely essential if unemployment in Europe is to come down. I hope that Japan will provide strong and sustained fiscal support for recovery. In countries where substantial slack still exists, the monetary authorities should be prepared to reduce interest rates further to ensure a strong recovery.

But macroeconomic policies are not enough. We must also eliminate obstacles to growth by expanding the scope for private sector initiative in our economies. Structural reforms can enhance the capacities of our economies to grow, and new technologies can create good jobs.

At the G-7 Jobs Conference earlier this year in Detroit, my colleagues and I benefited greatly from the draft employment and unemployment study prepared by the OECD. This study focuses both on macroeconomic and structural factors in unemployment. It clearly shows how better policies can help to create jobs. I hope the OECD will continue its work in this area, including the presentation of specific policy recommendations for measures that individual countries could take. We also believe it would be helpful to analyze the issues that arise as our economies exploit the potential of new technologies to create jobs and boost incomes.

We've come a long way in the past year. The challenge now is to ensure that the recovery in industrial countries spreads and strengthens, to let it create more jobs for our people, and to make the structural reforms that raise the efficiency of our economies and produce rising real incomes. We can meet our challenges if we all work together.

Mr. Chairman, my colleague Secretary Reich would like to add a word on labor markets.

Thank you.

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AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
June 1, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-DAY BILLS

Tenders for $14,007 million of 13-day bills to be issued June 3, 1994 and to mature June 16, 1994 were accepted today (CUSIP: 912794L28).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.09%	4.16%	99.852
High	4.11%	4.16%	99.852
Average	4.09%	4.16%	99.852

$125,000,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 31%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$55,795,000	$14,006,500
Type		
Competitive	$55,795,000	$14,006,500
Noncompetitive	0	0
Subtotal, Public	$55,795,000	$14,006,500
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$55,795,000	$14,006,500

LB-871

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

June 6, 1994

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of April 1994.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $118.4 billion on April 30, 1994, posting a decrease of $1,717.4 million from the level on March 31, 1994. This net change was the result of a decrease in holdings of agency debt of $1,395.6 million, a decrease in holdings of agency assets of $373.5 million, and an increase in holdings of agency-guaranteed loans of $51.7 million. FFB made 19 disbursements during the month of April, and repriced one REA-guaranteed loan. FFB also received 24 prepayments in April.

Attached to this release are tables presenting FFB April loan activity and FFB holdings as of April 30, 1994.

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FEDERAL FINANCING BANK
APRIL 1994 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
AGENCY DEBT				
RESOLUTION TRUST CORPORATION				
Note 22 /Advance #1	4/1	$28,400,000,000.00	7/1/94	3.688% S/A
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
GSA Refinancings	4/1	$1,425,141.57	3/25/04	6.542% S/A
Foley Services Contract	4/5	$279,086.00	12/11/95	5.520% S/A
GSA Refinancings	4/7	$1,459,282.74	3/25/04	6.757% S/A
GSA Refinancings	4/7	$1,070,218.62	3/25/04	6.759% S/A
GSA Refinancings	4/7	$1,493,521.77	9/25/03	6.733% S/A
GSA Refinancings	4/7	$2,165,493.63	3/25/04	6.757% S/A
HCFA Headquarters	4/13	$4,809,952.00	6/30/95	4.973% S/A
Foley Square Courthouse	4/15	$15,003,796.00	12/11/95	5.409% S/A
ICTC Building	4/18	$11,694,533.31	11/2/26	7.467% S/A
GSA Refinancings	4/20	$8,049,589.61	3/25/05	7.000% S/A
GSA Refinancings	4/20	$2,277,897.77	9/25/03	6.916% S/A
Atlanta CDC Office Bldg.	4/21	$131,784.00	9/1/95	5.367% S/A
Chamblee Office Building	4/21	$4,428.95	4/1/97	6.256% S/A
Oakland Office Building	4/21	$881,841.00	9/5/23	7.458% S/A
Memphis IRS Service Cent.	4/22	$3,134,359.38	1/3/95	4.714% S/A
Foley Square Office Bldg.	4/25	$9,327,114.00	12/11/95	5.545% S/A
GSA Refinancings	4/26	$1,625,388.40	3/25/03	6.669% S/A
ICTC Building	4/28	$1,045,944.00	11/2/26	7.287% S/A
RURAL ELECTRIFICATION ADMINISTRATION				
@Glacier State Tele. #181	4/8	$2,295,064.89	12/31/15	7.170% Qtr.

S/A is a Semi-annual rate: Qtr. is a Quarterly rate.
@ interest rate buydown

FEDERAL FINANCING BANK
(in millions)

Program	April 30, 1994	March 31, 1994	Net Change 4/1/94-4/30/94	FY '94 Net Change 10/1/93-4/30/94
Agency Debt:				
Department of Transportation	$ 664.7	$ 664.7	$ 0.0	$ 664.7
Export-Import Bank	4,847.1	4,847.1	0.0	-947.5
Resolution Trust Corporation	27,402.3	28,797.9	-1,395.6	-4,285.4
Tennessee Valley Authority	6,075.0	6,075.0	0.0	-250.0
U.S. Postal Service	9,731.5	9,731.5	0.0	0.0
sub-total*	48,720.6	50,116.2	-1,395.6	-4,818.3
Agency Assets:				
FmHA-ACIF	8,393.0	8,658.0	-265.0	-515.0
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	25,771.0	25,876.0	-105.0	-265.0
DHHS-Health Maintenance Org.	30.9	30.9	0.0	0.0
DHHS-Medical Facilities	46.2	49.6	-3.4	-5.2
Rural Electrification Admin.-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	1.4	1.5	-0.1	-1.5
sub-total*	42,516.3	42,889.8	-373.5	-786.6
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	3,937.6	3,944.0	-6.3	-145.7
DEd.-Student Loan Marketing Assn.	0.0	0.0	0.0	-4,790.0
DEPCO-Rhode Island	0.0	0.0	0.0	-30.4
DHUD-Community Dev. Block Grant	115.8	115.9	-0.1	-15.6
DHUD-Public Housing Notes	1,746.5	1,746.5	0.0	-54.5
General Services Administration +	1,855.8	1,789.9	65.9	270.1
DOI-Virgin Islands	22.2	22.2	0.0	-0.7
DON-Ship Lease Financing	1,479.6	1,479.6	0.0	-48.7
Rural Electrification Administration	17,359.5	17,359.5	0.0	-293.7
SBA-Small Business Investment Cos.	70.2	72.6	-2.4	-20.2
SBA-State/Local Development Cos.	546.1	551.4	-5.3	-30.3
DOT-Section 511	15.9	15.9	0.0	-1.1
DOT-WMATA	0.0	0.0	0.0	-177.0
sub-total*	27,149.2	27,097.5	51.7	-5,337.8
grand-total*	$118,386.1	$120,103.5	$-1,717.4	$-10,942.7

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

Statement by
LAWRENCE H. SUMMERS
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS
DEPARTMENT OF THE TREASURY
for the USIA Conference
"Investing in People: US-South Africa Conference on
Democracy and the Market Economy"
June 4, 1994

There is no higher objective for the United States than global prosperity in a democratic framework. Prosperity combined with democracy means peace and a better world for all. And neither prosperity nor democracy can long endure without the other. Nowhere is the struggle to meet these objectives more crucial or more vivid than today in South Africa.

South Africa faces the challenges of managing three revolutions: in the economic, political, and social realms. In the economic area the challenge is to revitalize the economy. The political challenge is to solidify a new democracy that involves all races and political groups. The social challenge is to guarantee the constitutional rights and the provision of the basic human needs of all South Africa's citizens.

South Africa is fortunate to face these challenges with significant resources:

-- an economy of $112 billion and growing;
-- a sophisticated financial system, the eleventh largest in the world by capitalization;
-- a modern infrastructure; and
-- major deposits of gold, platinum, and other minerals.

Though the national income is large for a population of 42 million, the country is characterized by enormous disparities in income, life expectancy, and other vital indicators. There really are two South Africas -- a black one and a white one.

The average black South African's income in 1989 was $670, about the same as the average Senegalese. The average white South African's income was nearly ten times as high, at $6,530 -- higher than the average Greek or Korean.

A large percentage of the black population also lacks virtually every basic amenity that most of us in this room take for granted:

-- 10 million are inadequately housed;
-- 2 million are malnourished;
-- 15 million must do without sanitation;
-- 23 million have no electricity.

These differences in income and access to proper health care, housing and other basic needs translate into a huge differential between the life expectancies of blacks and whites: 57 years for blacks, but 73 years for whites.

Literacy, to consider another measure, is only 45% among blacks, but 97% among whites. There is a high correlation with unemployment, which is around 50% for blacks and only about 10% for whites. In general, South Africa has a part of its work force that is well-schooled, well-trained, and ready to cope with the age of technology. It has another, much larger part, whose potential still is waiting to be developed.

We all could cite examples from around the world of success and failure in meeting these kinds of economic challenges. Success comes from skillful management of economic policy, supportive external assistance, and some luck. Putting aside the luck variable, I want to speak about the requisites for success in the task of the reconstruction and development of South Africa.

Economic Objectives

First, sound macroeconomic policy is crucial. President Mandela in his State of the Nation address reiterated his administration's commitments to:

-- "ensuring sustainable growth and development, leading to a better life for all"

-- "continue existing programs of fiscal rehabilitation"

-- "make every effort to contain real general government consumption at present levels and to manage the budget deficit with a view to its continuous reduction."

Furthermore, President Mandela recognized that "To achieve these important objectives will require consistent discipline on the part of both the central and the provincial governments." The moderate but realistic funding level pledged for the first year of the Reconstruction and Development Program (RDP) -- 2.5 billion rand, or about $700 million -- is a positive sign of the new administration's commitment to balancing economic growth with immediate improvements in the living standard of the disadvantaged majority.

There is a consensus that capital controls should be phased out, and the financial rand system abolished, as soon as the balance of payments and reserve account permit.

These are the right commitments to the right policies. If the new government sticks to these policies, the probability of an economic success story improves. The IMF, the World Bank, and the donor community are ready to offer technical and financial support where it is desired and needed.

Second, we are encouraged by President Mandela's discussion of the need to attract private investment. He has promised to continue fiscal and monetary policies aimed at maintaining financial stability and further reducing inflation. He wants to see the private sector play a central role in achieving high and sustainable economic growth.

To encourage private investment and a strong business sector, the government's role is also to assure an open trade and investment environment. President Mandela has shown an awareness of the need for concrete action in this area. We welcome South Africa's intention to enter the GATT, and its offer to reduce its tariffs and simplify its tariff structure. We hope for action as well to eliminate barriers to investment and the repatriation of profits.

President Clinton announced last month an "Aid, Trade and Investment Package for South Africa." It includes programs targeted at social investment as well as increasing trade and business investment between our two nations. Specifically, the Overseas Private Investment Corporation's guarantee programs, USAID's Micro Enterprise Development Program, the Export-Import Bank's trade finance facilities, and the Commerce Department's trade development programs are aimed at promoting a strong private sector in South Africa. The President also will grant trade preferences to South Africa under the Generalized System of Preferences, which should provide a substantial boost to South Africa's export sector.

Finally, the Treasury Department is giving top priority to negotiation of a bilateral tax treaty, which should encourage U.S. investment.

Social Objectives

Social objectives are central to the new government's vision. President Mandela has made a R2.5 billion down payment on the people-centered society envisioned in the Reconstruction and Development Program. There is no shortage of funding for this purpose in the short run, but delivery structures for social services will need work. This is an area where external assistance can help.

The World Bank is prepared to commit major resources, both financial and advisory, in areas such as education, health care, sanitation, poverty alleviation, and small business development. But I want to assure the new government that neither we, nor the other members of the donor community, want to impose our development agenda on South Africa. We do want to support South Africa's objectives. When those objectives have been clearly defined, we will be ready to assist.

What Can South Africa Look Forward To?

If the new government can hold to the policy path it has set, take advantage of its own resources, and reach out to others where additional resources are needed, I am hopeful that within the next decade the South African people will see a real improvement in their quality of life. I caution people to be realistic about the time it will take to erase the effects of an economy built upon systematic discrimination.

Nevertheless, I am optimistic that South Africa can experience sustainable real growth of around 5%, single digit inflation, and a significant reduction in unemployment, with creation of up to 6 million new jobs.

With a commitment to the policies that President Mandela has announced, these things are feasible over the medium term. I see South Africa closing the social gap, with:

-- clean water supplied to an additional 13 million people;

-- sanitation for an additional 5 million people;

-- construction of 300,000 new homes per year by the year 2004;

-- and 2500 improved health clinics.

Even if we could reduce the gap by only one-third, we would see a dramatic impact on people's lives in the next decade. Black life expectancy would increase by about five years. Some 14,000 black infants, who now perish every year, would live.

Conclusion

Success in South Africa's socio-economic transition is important for South Africans. It is important for the troubled African continent. And it is important to the democratic ideals that Americans cherish.

Indeed, Americans feel a bond with South Africans on many levels. I am reminded of Robert Kennedy's words to the students of the University of Capetown:

> I come here because of my deep interest and affection for a land settled by the Dutch in the mid-seventeenth century, then taken over by the British, and at last independent; a land in which the native inhabitants were at first subdued, but relations with whom remain a problem to this day; a land which defined itself on a hostile frontier; a land which has tamed rich natural resources through the energetic application of modern technology; a land which once imported slaves and now must struggle to wipe out the last traces of that former bondage. I refer, of course, to the United States of America.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
June 6, 1994

Contact: Rebecca Lowenthal
(202) 622-2960

U.S. TREASURER NAMED HONORARY DIRECTOR FOR SAVINGS BONDS

U.S. Treasurer Mary Ellen Withrow has been named National Honorary Director for U.S. Savings Bonds to help the Treasury Department promote the sale of savings bonds nationwide.

Mrs. Withrow will represent Treasury Secretary Lloyd Bentsen around the country at savings bond campaign kick-offs and ceremonies.

Americans own more than $176 billion worth of savings bonds, which individuals can purchase through financial institutions or through the Payroll Savings Plans of government and private employers.

The savings bond program was started during World War II, when billions of dollars were needed to help finance the war effort. In a one-month drive launched just after the D-Day landing in Normandy, for example, the U.S. raised $21 billion through bond sales.

"Last year, we sold $17 billion in bonds. If you adjust for 50 years of inflation, we would have needed to sell $190 billion to reach what they did after D-Day," Secretary Bentsen said.

"What I like about savings bonds is that they are the safest investment around," he said. "The government has never defaulted on a security. They're affordable, you can buy them in small lots, you don't have to pay commission fees or sales loads, and they have tax advantages. I don't think we save enough in this country. We all know we need to save more. And savings bonds are a good way to do it."

Mrs. Withrow was sworn in on March 1, 1994 as U.S. Treasurer. She will work closely with Richard Gregg, Commissioner of the Public Debt, who has overall responsibility for the savings bond program.

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LB-874

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

FOR IMMEDIATE RELEASE
June 6, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $12,681 million of 13-week bills to be issued June 9, 1994 and to mature September 8, 1994 were accepted today (CUSIP: 912794N26).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.14%	4.24%	98.954
High	4.15%	4.25%	98.951
Average	4.15%	4.25%	98.951

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

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$49,769,321	$12,681,173
Type		
Competitive	$44,693,607	$7,605,459
Noncompetitive	1,361,534	1,361,534
Subtotal, Public	$46,055,141	$8,966,993
Federal Reserve	3,204,555	3,204,555
Foreign Official Institutions	509,625	509,625
TOTALS	$49,769,321	$12,681,173

An additional $305,575 thousand of bills will be issued to foreign official institutions for new cash.

LB-875

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

FOR IMMEDIATE RELEASE
June 6, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $12,649 million of 26-week bills to be issued June 9, 1994 and to mature December 8, 1994 were accepted today (CUSIP: 912794P40).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.52%	4.69%	97.715
High	4.53%	4.70%	97.710
Average	4.53%	4.70%	97.710

Tenders at the high discount rate were allotted 86%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$50,623,410	$12,649,419
Type		
Competitive	$45,487,902	$7,513,911
Noncompetitive	1,161,733	1,161,733
Subtotal, Public	$46,649,635	$8,675,644
Federal Reserve	3,150,000	3,150,000
Foreign Official Institutions	823,775	823,775
TOTALS	$50,623,410	$12,649,419

An additional $493,925 thousand of bills will be issued to foreign official institutions for new cash.

LB-876

PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
June 6, 1994

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR MAY 1994

Treasury's Bureau of the Public Debt announced activity figures for the month of May 1994, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$778,598,886
Held in Unstripped Form	$559,032,052
Held in Stripped Form	$219,566,834
Reconstituted in May	$13,298,852

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

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

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PA-148

TABLE VI--HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, MAY 31, 1994
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding: Total	Principal Amount Outstanding: Portion Held in Unstripped Form	Principal Amount Outstanding: Portion Held in Stripped Form	Reconstituted This Month#1
11-5/8% Note C-1994.....	.....11/15/94.....	$6,658,554	$4,725,754	$1,932,800	$33,600
11-1/4% Note A-1995.....	.....2/15/95......	6,933,861	5,644,581	1,289,280	-0-
11-1/4% Note B-1995.....	.....5/15/95......	7,127,086	4,549,646	2,577,440	111,840
10-1/2% Note C-1995.....	.....8/15/95......	7,955,901	5,255,501	2,700,400	16,000
9-1/2% Note D-1995......	.....11/15/95.....	7,318,550	4,049,350	3,269,200	80,000
8-7/8% Note A-1996......	.....2/15/96......	8,445,745	7,082,545	1,363,200	12,800
7-3/8% Note C-1996......	.....5/15/96......	20,085,643	19,200,843	884,800	-0-
7-1/4% Note D-1996......	.....11/15/96.....	20,258,810	18,007,610	2,251,200	24,800
8-1/2% Note A-1997......	.....5/15/97......	9,921,237	8,770,037	1,151,200	8,000
8-5/8% Note B-1997......	.....8/15/97......	9,362,836	7,961,236	1,401,600	-0-
8-7/8% Note C-1997......	.....11/15/97.....	9,808,329	7,782,729	2,025,600	107,200
8-1/8% Note A-1998......	.....2/15/98......	9,159,068	8,240,988	918,080	58,880
9% Note B-1998..........	.....5/15/98......	9,165,387	6,821,187	2,344,200	124,600
9-1/4% Note C-1998......	.....8/15/98......	11,342,646	9,359,446	1,983,200	88,800
8-7/8% Note D-1998......	.....11/15/98.....	9,902,875	7,088,475	2,814,400	43,200
8-7/8% Note A-1999......	.....2/15/99......	9,719,623	8,412,423	1,307,200	19,200
9-1/8% Note B-1999......	.....5/15/99......	10,047,103	6,715,903	3,331,200	28,800
8% Note C-1999..........	.....8/15/99......	10,163,644	8,170,769	1,992,875	24,900
7-7/8% Note D-1999......	.....11/15/99.....	10,773,960	8,330,760	2,443,200	30,400
8-1/2% Note A-2000......	.....2/15/00......	10,673,033	9,457,433	1,215,600	12,400
8-7/8% Note B-2000......	.....5/15/00......	10,496,230	6,209,830	4,286,400	19,200
8-3/4% Note C-2000......	.....8/15/00......	11,080,646	8,178,086	2,902,560	11,200
8-1/2% Note D-2000......	.....11/15/00.....	11,519,682	9,102,882	2,416,800	20,000
7-3/4% Note A-2001......	.....2/15/01......	11,312,802	9,418,402	1,894,400	41,600
8% Note B-2001..........	.....5/15/01......	12,398,083	10,042,433	2,355,650	40,000
7-7/8% Note C-2001......	.....8/15/01......	12,339,185	10,441,585	1,897,600	43,200
7-1/2% Note D-2001......	.....11/15/01.....	24,226,102	22,871,062	1,355,040	-0-
7-1/2% Note A-2002......	.....5/15/02......	11,714,397	10,921,597	792,800	140,400
6-3/8% Note B-2002......	.....8/15/02......	23,859,015	23,446,215	412,800	91,200
6-1/4% Note A-2003......	.....2/15/03......	23,562,691	23,534,339	28,352	512
5-3/4% Note B-2003......	.....8/15/03......	28,011,028	28,003,828	7,200	136,000
5-7/8% Note A-2004......	.....2/15/04......	12,955,077	12,955,077	-0-	-0-
7-1/4% Note B-2004......	.....5/15/04......	14,440,372	14,440,372	-0-	-0-
11-5/8% Bond 2004.......	.....11/15/04.....	8,301,806	5,820,206	2,481,600	291,200
12% Bond 2005...........	.....5/15/05......	4,260,758	3,061,258	1,199,500	196,000
10-3/4% Bond 2005.......	.....8/15/05......	9,269,713	8,510,513	759,200	175,200
9-3/8% Bond 2006........	.....2/15/06......	4,755,916	4,755,276	640	-0-
11-3/4% Bond 2009-14....	.....11/15/14.....	6,005,584	2,643,184	3,362,400	569,600
11-1/4% Bond 2015.......	.....2/15/15......	12,667,799	4,846,679	7,821,120	476,480
10-5/8% Bond 2015.......	.....8/15/15......	7,149,916	2,328,476	4,821,440	247,680
9-7/8% Bond 2015........	.....11/15/15.....	6,899,859	2,403,859	4,496,000	454,400
9-1/4% Bond 2016........	.....2/15/16......	7,266,854	6,318,054	948,800	555,200
7-1/4% Bond 2016........	.....5/15/16......	18,823,551	18,401,951	421,600	-0-
7-1/2% Bond 2016........	.....11/15/16.....	18,864,448	17,953,648	910,800	50,400

TABLE VI--HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, MAY 31, 1994
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding: Total	Principal Amount Outstanding: Portion Held in Unstripped Form	Principal Amount Outstanding: Portion Held in Stripped Form	Reconstituted This Month#1
8-3/4% Bond 2017........	.....5/15/17......	18,194,169	5,077,049	13,117,120	1,108,960
8-7/8% Bond 2017........	.....8/15/17......	14,016,858	5,912,858	8,104,000	969,600
9-1/8% Bond 2018........	.....5/15/18......	8,708,639	1,958,239	6,750,400	603,200
9% Bond 2018............	.....11/15/18.....	9,032,870	1,255,470	7,777,400	241,000
8-7/8% Bond 2019........	.....2/15/19......	19,250,798	3,596,398	15,654,400	416,000
8-1/8% Bond 2019........	.....8/15/19......	20,213,832	17,328,072	2,885,760	958,720
8-1/2% Bond 2020........	.....2/15/20......	10,228,868	3,860,068	6,368,800	328,000
8-3/4% Bond 2020........	.....5/15/20......	10,158,883	2,386,563	7,772,320	440,320
8-3/4% Bond 2020........	.....8/15/20......	21,418,606	3,745,166	17,673,440	540,000
7-7/8% Bond 2021........	.....2/15/21......	11,113,373	9,449,373	1,664,000	377,600
8-1/8% Bond 2021........	.....5/15/21......	11,958,888	4,597,928	7,360,960	648,000
8-1/8% Bond 2021........	.....8/15/21......	12,163,482	5,634,202	6,529,280	455,360
8% Bond 2021............	.....11/15/21.....	32,798,394	7,751,169	25,047,225	1,002,400
7-1/4% Bond 2022........	.....8/15/22......	10,352,790	8,643,190	1,709,600	316,000
7-5/8% Bond 2022........	.....11/15/22.....	10,699,626	5,317,226	5,382,400	502,400
7-1/8% Bond 2023........	.....2/15/23......	18,374,361	17,428,761	945,600	6,400
6-1/4% Bond 2023........	.....8/15/23......	22,909,044	22,854,292	54,752	-0-
Total.................	....	778,598,886	559,032,052	219,566,834	13,298,852

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

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
June 7, 1994

Contact: Chris Peacock
(202) 622-2960

LOGUE-KINDER NAMED ASSISTANT SECRETARY FOR PUBLIC AFFAIRS
SCHLOSS BECOMES DEPUTY ASSISTANT SECRETARY

Treasury Secretary Lloyd Bentsen swore in Joan Logue-Kinder as Assistant Secretary for Public Affairs at the Department of the Treasury on May 25, 1994.

President Clinton formally nominated Ms. Logue-Kinder to be Assistant Secretary in January 1994. She had been Deputy Assistant Secretary for Public Affairs since March 1993. In this position, Ms. Logue-Kinder directs all external communications initiatives for the Secretary and his staff with the media, the White House Press Office and other government agencies.

Ms. Logue-Kinder came to Treasury from Edelman Public Relations Worldwide where she was vice president for the New York office's public affairs group and director of the company's minority affairs program. Prior to working at Edelman, Ms. Logue-Kinder was managing director of The Mingo Group/Plus, a division of The Mingo Group, one of the largest African-American advertising agencies. She began her public relations career as director of communications for National Black Network (NBN), where she was a founder and co-director of The World Institute of Black Communications, and later a corporate vice president for NBN.

Ms. Logue-Kinder attended Wheaton College and received a B.A. from Adelphi University. She lives in Washington, D.C. and has three children.

Howard M. Schloss replaces Ms. Logue-Kinder as Deputy Assistant Secretary for Public Affairs. He has been at Treasury since December 1993. He had been an account supervisor at Powell Tate, a Washington, D.C., public affairs firm, since January 1991. Before going to Powell Tate, Mr. Schloss was communications director for the Democratic Congressional Campaign Committee. Prior to that he worked for the Fort Worth Star-Telegram.

Mr. Schloss graduated in 1982 from Southern Methodist University with a B.F.A. in journalism. He is married and lives in Virginia.

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LB-877

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
June 7, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $24,000 million, to be issued June 16, 1994. This offering will result in a paydown for the Treasury of about $15,900 million, as maturing bills total $39,888 million (including the 13-day cash management bills issued June 3, 1994, in the amount of $14,007 million).

Federal Reserve Banks hold $6,285 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $2,033 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

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

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

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Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JUNE 16, 1994

June 7, 1994

Offering Amount	$12,000 million	$12,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 N3 4	912794 M2 7
Auction date	June 13, 1994	June 13, 1994
Issue date	June 16, 1994	June 16, 1994
Maturity date	September 15, 1994	December 15, 1994
Original issue date	March 17, 1994	December 16, 1993
Currently outstanding	$13,112 million	$16,238 million
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

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

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

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

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

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

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
June 8, 1994

Contact: Peter Hollenbach
(202) 219-3302

MAY SAVINGS BONDS SALES REACH $725 MILLION

Savings Bonds sales in May reached $725 million, pushing the value of U.S. Savings Bonds held by Americans to $176.6 billion, up 7 percent over a year ago.

Savings Bonds issued on or after March 1, 1993, and held five years or longer, earn the market-based interest rate if it averages more than the guaranteed minimum of 4 percent. Bonds issued before March 1993 retain their existing guaranteed minimum rates until they enter a new extended maturity period. If redeemed during the first five years, bonds earn 4 percent. The current semiannual market-based rate effective May 1, 1994, through October 31, 1994, is 4.70 percent.

Interest earnings on Savings Bonds are exempt from State and local income taxes, and Federal income taxes on the interest earnings can be deferred.

Current rate information can be obtained by calling the Savings Bonds Marketing Office's toll-free number, 1-800-4US-BOND.

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STATISTICAL SUMMARY
Series EE and HH U. S. Savings Bonds
Month of May 1994

ISSUES, REDEMPTIONS AND OUTSTANDING	May 1994	May 1993
	(In millions of dollars)	
Sales: Series EE	$ 725	$ 787
Accrued Discount (Interest earned and added to Amount Outstanding) Series E & EE	719	723
Redemptions (Including Accrued Discount) All Series	759	627
Cash Adjustments from Series HH Savings Bonds Exchanges	(1)	(3)
Amount Outstanding Net Change (+)/(-)*	684	880
Total Outstanding	1994	1993
Series E & EE	$165,254	$154,693
Series H & HH	11,313	10,980
	$176,567	$165,673

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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TEXT AS PREPARED FOR DELIVERY

REMARKS BY DEPUTY TREASURY SECRETARY ROGER ALTMAN TO THE AMERICAN COUNCIL FOR CAPITAL FORMATION LOEWS L'ENFANT PLAZA HOTEL JUNE 8, 1994

I want to begin by commending this group for its commitment to increasing savings and investment in the United States. Many in Washington somehow consider this a conservative or pro-business cause. There would be nothing wrong with that if it were true, but it simply isn't. That type of labeling betrays a misunderstanding of the simple, but powerful, linkage between savings, investment, productivity, and real incomes. We all know what real income means. It means standards of living. And, the central purpose of any society is to improve the standards of living of its citizens.

Many, including this organization, have called for the creation of a consumption tax to replace or reduce our dependence on the current income tax system. Though they often cite the simplicity or self-policing aspects of a properly designed consumption tax, the real goal is to boost private savings and investment. That is the reason this effort will continue to build momentum. For revitalizing the capital formation process is absolutely crucial for the long term economic health of this nation.

America's saving rate has been declining for a number of years. During the 1970's, personal savings averaged 7.7 percent of disposable income. By the 1980's that rate had dropped to 6.5 percent, and thus far in the 1990's its registered an anemic 4.6 percent. While savings is no longer as closely correlated with investment levels in a global capital market era, clearly the decreasing level of domestic savings is cause for concern.

It is important to ask "why savings have declined?" Unfortunately, the evidence is mixed and there is no consensus. There are several theories. Some think that the public safety nets we created over the past 50 years are perceived as having reduced the need to save. Another theory suggests that rising housing values and stock market gains during the 1970's and 1980's created a new sense of security among those Americans that would otherwise be in the prime saving years of their life. And finally, a third theory postulates that spending has simply become too easy. As financial innovations have increased access to personal assets, the will to spend has overcome the will to save. In truth, I think nobody really knows. It could be that all of these factors play some role -- or perhaps none.

Should our U.S. savings rates be a cause for concern? Yes, because low levels of domestic savings force us to be a chronic net capital importer. That raises questions ranging from developmental equity to possible strategic liabilities. As the world's most developed nation, it can be argued the U.S. should be a net capital provider. Rather than consuming almost $140 billion per year from world reserves, we should be contributing to them. In a most basic sense, we should ask ourselves why the U.S. with a per capita income of more than $20,000 should borrow from the Chinese whose per capita income is less than $2,000 to fund its business investments at home.

But there are some strategic concerns as well. Do we really want to depend on foreign markets for the bulk of our investment capital? There are some reasons why we might not. International investors forced to accept both interest rate and foreign exchange risk may charge more for the use of their funds. They also may withdraw or deny additional funds more quickly during periods of market upheaval.

Declining savings rates may also have contributed to the decline in private sector investment. Throughout the 1950's, 1960's and 1970's (nominal) net private business investment levels averaged more than 8 percent of NDP (net domestic product) for each decade. During the 1980's, however, the average rate was halved to 4 percent. And thus far in the 1990's, it has been halved again to only 2 percent. While the level has picked up smartly during the past 12 months, clearly more needs to be done.

The international comparisons are not favorable. Even if we include historical data reaching back 30 years, we lag all other G-7 member countries. From 1960 to 1990, total U.S. net investment amounted to 7 percent of NDP. The closest comparable countries are the U.K. at 9 percent and Canada at 12 percent. And all three of these are a far cry from Japan whose 30 year average measures 21 percent.

It is little wonder then that Japan's long-term growth rate over this same time period was almost double ours. There is simply no escaping the linkage between investment, and faster economic growth. Raising and maintaining high levels of investment is the central goal of groups like yours, and it is also a key tenet of the Clinton economic plan. And, the Clinton Administration has taken several steps to improve U.S. investment.

The most direct and essential first step was to cut the budget deficit and thereby reduce the level of national dissaving. Over the course of the past decade, mounting deficits had doubled our national debt ratio (34 percent to 70 percent of GDP) and created inflationary expectations in the private sector. With last year's budget plan, President Clinton cut the deficit by $500 billion over five years (1994 - 1998). As a result, next year's deficit will total only $176 billion or 2.5 percent of GDP -- slightly more than half the 4.4 percent CBO had projected.

Reducing the budget deficit by 2 percent of GDP next year will bolster national savings. And, assuming that two-thirds of those savings remain in this country, it will raise investment levels by 1.3 percent. This, in turn, will contribute an additional 0.2 percent to our growth in GDP based on historical economic trends.

This has had a positive impact on business investment. It brought about a sharp fall in interest rates. The benchmark 30 year bond fell below 6 percent (a 20 year low) and that provided a substantial stimulus to the economy. And sure enough, businesses began investing once again. In fact, in 1993, business investment in machinery and equipment jumped more than 18 percent over the previous year's level. While interest rates have risen recently, they have not reached levels that would dampen the recovery since the economic fundamentals remain strong. Government borrowing is no longer driving up interest rates, inflationary expectations are moderate, and we continue to see steady growth in employment.

A second step is to restore selective public investments. During the 1960's, our public investment averaged 4.5 percent of our GDP, but we're now operating at 2.6 percent. This is undermining our competitiveness. There are, after all, some select areas where only the public sector can lead.

Restoring investments in people is a core principal of the President's economic strategy. For while production and capital are mobile, our workforce is here for the duration. Yes, it is still the most productive in the world, however, several negative trends including high drop-out rates, worker illiteracy, and an aging population are threatening to erode that status. Therefore, it is imperative to upgrade the skills of our workers through improved education, training, and retraining.

With this goal in mind, the President expanded Head Start and put forward his Goals 2000 plan to improve our education system. As a nation, we spend more money per student on education than any other G-7 country ($3,800 constant 1989 dollars), and yet our testing scores lag most of them. These two initiatives will help prepare our disadvantaged youths for school and set higher performance standards overall.

The President also vastly expanded the earned income tax credit. This program provides a refundable tax credit to lower income workers and their families that choose to work rather than receive welfare. Similarly, he proposed a re-employment initiative to replace our outdated unemployment system. The goal of this program is to retrain and reemploy people as soon as possible. The combined goal of these programs is to reduce the number of people receiving entitlements and to keep them in the workforce. Staying on the job, after all, is the best known way to learn new skills and remain a productive part of our society.

The President also sought to increase the percentage of college graduates in the workforce by creating a National Service Program and reforming the student loan system.

Workers with college degrees generally earn an average of 1.7 times more than those holding high school diplomas.

These various steps will not fix our overall problem of declining levels of capital formation, but they will help. In the long term, some form of consumption tax will receive increasing attention from policy makers on all sides. But any such proposal would have to meet several stringent criteria. It would have to ensure adequate progressivity. It would truly have to promise improved savings. It would have to be easily administrable. It could not be economically destabilizing as it is phased in. And, it would have to have sufficient broad-based appeal. These are the tests which should be applied to any such proposals, including the Nunn-Domenici "savings-exempt income tax," the Boren-Danforth broad-based consumptiòn tax, and Congressman Gibbons' support for a value-added tax.

In closing, I would stress that this is an important debate and those of us in the Treasury look forward to participating in it. Thank you.

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AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
June 13, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $12,067 million of 13-week bills to be issued June 16, 1994 and to mature September 15, 1994 were accepted today (CUSIP: 912794N34).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.15%	4.25%	98.951
High	4.16%	4.26%	98.948
Average	4.16%	4.26%	98.948

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

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$57,317,514	$12,066,552
Type		
Competitive	$52,303,020	$7,052,058
Noncompetitive	1,262,505	1,262,505
Subtotal, Public	$53,565,525	$8,314,563
Federal Reserve	3,134,780	3,134,780
Foreign Official Institutions	617,209	617,209
TOTALS	$57,317,514	$12,066,552

An additional $102,991 thousand of bills will be issued to foreign official institutions for new cash.

LB-881

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

FOR IMMEDIATE RELEASE
June 13, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $12,066 million of 26-week bills to be issued June 16, 1994 and to mature December 15, 1994 were accepted today (CUSIP: 912794M27).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.54%	4.71%	97.705
High	4.55%	4.72%	97.700
Average	4.55%	4.72%	97.700

Tenders at the high discount rate were allotted 42%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$50,844,342	$12,065,715
Type		
Competitive	$45,588,729	$6,810,102
Noncompetitive	1,100,297	1,100,297
Subtotal, Public	$46,689,026	$7,910,399
Federal Reserve	3,150,000	3,150,000
Foreign Official Institutions	1,005,316	1,005,316
TOTALS	$50,844,342	$12,065,715

An additional $167,784 thousand of bills will be issued to foreign official institutions for new cash.

LB-882

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
June 13, 1994

BENTSEN TO RECEIVE EISENHOWER LEADERSHIP PRIZE

Treasury Secretary Lloyd Bentsen will receive the Dwight D. Eisenhower Leadership Prize honoring his lifelong commitment to public service and national leadership at a dinner at 7:30 p.m. Wednesday, June 15 in the International Ballroom of the Washington Hilton.

"I am honored to have been selected to receive the Eisenhower Leadership Prize," Secretary Bentsen said. "My career in public service began under General Eisenhower and I have been very fortunate to have a public career that has been both long and filled with challenges. I hope that in some small way I have furthered the interests of our nation."

The Eisenhower Leadership Prize is jointly awarded by the Eisenhower World Affairs Institute and Gettysburg College. The Prize was established in 1990 on the 100th anniversary of the birth of President Eisenhower.

Previous recipients of the prize include General Colin Powell, former chairman of the U.S. Joint Chiefs of Staff and Brent Scrowcroft, former national security adviser to President Bush.

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FOR IMMEDIATE RELEASE
JUNE 14, 1994

The Administration's Views on the Loan Securitization Provisions of the Community Development, Credit Enhancement, and Regulatory Improvement Act of 1994

Statement of the Honorable Richard S. Carnell
Assistant Secretary for Financial Institutions
United States Department of the Treasury
before the
Subcommittee on Telecommunications and Finance
Committee on Energy and Commerce
United States House of Representatives

June 14, 1994

LB-884

The Administration's Views on the Loan Securitization Provisions of the Community Development, Credit Enhancement, and Regulatory Improvement Act of 1994

Statement of the Honorable Richard S. Carnell
Assistant Secretary for Financial Institutions
United States Department of the Treasury

Summary

- Borrowers, loan originators, and investors all stand to benefit from securitization. Securitization can increase the market value of loans by diversifying their risk, increasing their liquidity, and better satisfying investors' risk-and-return preferences. These changes can make credit cheaper and more readily available.

- These benefits can extend to small business lending, even though small business loans are more heterogeneous than home mortgages or automobile loans. Securitization has the potential to increase the supply and reduce the cost of credit to small businesses. It should enable loan originators to free up resources that can be used to make more small business loans. It should also bring new sources of funds to small- and medium-sized business lending. Indeed, by enabling small businesses to tap national and international credit markets, securitization could make such businesses less susceptible to problems in the banking system.

- Accordingly, the Administration supports the small business loan securitization provisions in title II-A of H.R. 3474 as passed by the Senate. These provisions would remove impediments to securitization.

- The development of a larger market for commercial mortgage-backed securities should also offer many benefits. It will impose additional discipline in the allocation of credit for commercial real estate. A larger secondary market for commercial mortgages will also promote a safer and sounder banking system by enabling banks to diversify out geographic risk. Thus the Administration supports section 347 of Senate-passed H.R. 3474, which would extend the benefits of the Secondary Mortgage Market Enhancement Act of 1984 to commercial mortgages.

STATEMENT OF THE
HONORABLE RICHARD S. CARNELL

Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to present the Administration's views on the loan securitization provisions of the Community Development, Credit Enhancement, and Regulatory Improvement Act of 1994, H.R. 3474, as passed by the Senate. Improving small businesses' access to credit is an important goal of the Administration, and we look forward to working with the Committee on Energy and Commerce, and other Members of Congress, to complete work on this legislation.

I. Overview of the Securitization Process

Before discussing the bill's securitization provisions, I would like to give you an overview of the securitization process and its effect on credit markets. By "securitization," I mean the process of transforming financial assets, such as loans, into securities that in turn convert into cash over time. One converts loans into securities by assembling a pool of loans and selling them to a special-purpose entity, often a trust. That entity then issues securities representing a debt or equity interest in the loan pool. The cash flow generated by the loans finances payments on the securities.

Benefits of Securitization

Securitization occurs because it benefits loan originators, borrowers, and investors. Securitization benefits loan originators by increasing the market value of loans in at least three ways. First, a pool of loans is likely to have a more stable income flow than a single loan. This greater stability raises the value of the loans in the pool. Second, securitization enables the risks and returns of loans to be divided into their component parts and tailored to a variety of investor preferences. Investors can thus move closer to their preferred portfolios. For example, pension funds investing now to pay benefits due three decades hence can bear interest-rate risk more easily than firms needing ready cash in six months. Third, the option of securitization makes loans more liquid -- easier to convert into cash -- even if the originator retains them in its own portfolio.

Securitization benefits borrowers by making credit cheaper and more readily available. Borrowers pay lower interest rates as originators pass on some of the increased value of their loans. Securitization may also reduce fluctuations in the flow of credit to borrowers who depend on a small group of primary lenders. Many small businesses, for example, depend on commercial banks for lending. Cyclical changes in the national or regional economy or in bank supervision that reduce the banking system's lending capacity may reduce the availability of credit to small businesses. Securitization could help make small businesses less susceptible to problems in the banking system insofar as it gives those businesses access to national and international credit markets, through banks or other financial institutions.

Securitization benefits investors by providing additional investment opportunities and enabling them to move closer to what they perceive as optimal portfolios. Finally, securitization benefits the banking system as a whole through diversification, whether geographic or with regard to a particular borrower or industry.

Historical Development of Securitization

Asset-backed security issues began in the early 1970s with residential mortgages and grew directly out of federally sponsored programs to assist the housing industry and home buyers. A principal mandate of the Government National Mortgage Association (Ginnie Mae), Federal National Mortgage Association (Fannie Mae), and Federal Home Loan Mortgage Corporation (Freddie Mac) was and continues to be providing greater access to capital for residential mortgage financing by developing a secondary market for residential mortgages.

These government-sponsored enterprises (GSEs) dominated securitization issues during the 1970s and into the 1980s. In an effort to expand private-sector participation, Congress passed the Secondary Mortgage Market Enhancement Act of 1984 (SMMEA). SMMEA attempted to increase the demand for, and market value of, privately sponsored mortgage-backed securities by removing legal impediments to securitizing "mortgage-related securities." Accordingly, SMMEA (1) changed margin requirements to accommodate the need for delayed delivery in transactions involving private issues of mortgage-related securities; (2) authorized depository institutions to invest in mortgage-related securities issued by the private sector; (3) pre-empted state law limiting investments in such securities; and (4) exempted mortgage-related securities from registration under state securities laws. States could, however, reimpose investment limitations and registration requirements within seven years after SMMEA became law.

SMMEA sought to allow depository institutions and institutional investors, especially pension funds, to purchase privately sponsored mortgage-backed securities as if they were issued by a federal agency or GSE. SMMEA also attempted to reduce the cost of issuing privately sponsored mortgage-backed securities by requiring states -- subject to a state legislative override -- to regulate such securities no more stringently than those of federal agencies. Its enactment unlocked a large pool of potential demand for residential mortgage-related securities. These securities could be marketed broadly without having to review fifty states' investment statutes. Although it is not entirely clear to what extent SMMEA has contributed to the growth of privately issued mortgage-backed securities, that growth has been rapid since 1984.

New types of asset-backed securities have proliferated, including securitized automobile loans, credit card receivables, home equity loans, commercial mortgages, and computer leases.

Securitization works most easily when it involves a high volume of standardized loans, such as those for single-family housing, automobiles, and credit card purchases. These loans are relatively homogenous, which makes it easier to project losses and predict cash flows. Investors understand the historical losses for these loans, and the payment streams are fairly consistent. Securitization is more difficult in the case of nonstandard loans -- those with borrowers of differing credit qualities and relatively wide variation in collateral, interest rates, amortization, covenants, and documentation. However, the recent development of securities supported by pools of such heterogenous assets suggests that many more types of financial obligations can be securitized, provided that investors or credit-enhancers can project the losses and predict the cash flows.

II. Securitizing Small Business Loans

Title II-A of H.R. 3474 seeks to reap for small businesses the same credit-availability benefits that securitization has yielded in other markets. In fact, securitization of small business loans has already proven feasible: three public securitizations have come to market even without changes in current statutes. But the underlying diversity of small business loans impedes the development of a large-scale secondary market. Small business loans have diverse credit terms, such as collateral requirements and repayment schedules, which reflect the underlying diversity of the business activities being financed. This diversity in terms makes it difficult to estimate expected loan losses and predict cash flow. Nonetheless, this hurdle is not insurmountable if secondary market participants can develop underwriting and loan documentation procedures -- similar to those the GSEs have developed for home mortgages. As the GSEs have demonstrated in the securitization of adjustable rate mortgages and multifamily loans, such procedures need not require mindless standardization of loan terms.

We believe that securitization has the potential to increase lending to small businesses. Offering loan originators the opportunity to sell pools of small business loans to investors should help free up resources that can be used to make more such loans. By making small business loans more liquid, securitization should make them more attractive to originate and to hold. Securitization should also bring new sources of funds to small- and medium-sized business lending by enabling investors who do not lend directly to small businesses -- such as pension funds, insurance companies, trust departments, and other institutional investors -- to invest in small business loans made by other financial institutions, including banks that are effective originators of such loans but that may not want to hold all loans originated on their balance sheets.

Furthermore, the Administration believes that securitization should reduce the cost of borrowing for small businesses. Small business borrowers pay higher interest rates for credit in part because their loans are illiquid. If an active secondary market for small business loans existed, interest rates in that market would influence rates in the loan origination market. If rates and yields were high in the securitized loan market, banks and other loan originators would be eager to have more loans to sell. They would signal this interest to borrowers by slightly lowering their interest rates to them, inviting borrowers to seek more credit or permitting previously marginal borrowers to afford credit.

Title II-A seeks to foster the development of a secondary market for small business loans by removing impediments in the securities, banking, pension, and tax laws.

Just as SMMEA amended the securities laws to define "mortgage related security," title II-A would define "small business related security." Such a security would either: (1) represent an interest in one or more promissory notes of a small business, or (2) be secured by an interest in one or more promissory notes and provide for payments of principal in relation to payments on the notes. The loans would have to be made to small businesses as defined by the Small Business Act, and the security would have to be rated in one of the four highest rating categories (i.e., rated investment grade) by at least one nationally recognized statistical rating organization.

We do have some concerns about allowing a small business related security to be rated in any of the four highest rating categories. SMMEA sets a higher standard for mortgage-related securities, which are generally thought to be less risky than small business related securities.

The bill also amends the federal securities laws relating to margin and securities delivery requirements by allowing issuers more time to pool and sell securities. The current 35-day time period for delivery is extended to 180 days so that small business loans to be included in a pool backing securities may be originated after a commitment to purchase the securities has been obtained. SMMEA accorded the same treatment to mortgage-related securities. As under SMMEA, moreover, the Securities and Exchange Commission (SEC) and the Federal Reserve Board (Fed) could reduce the 180-day period to correct any perceived abuses. To date, neither agency has found it necessary to reduce this time period for mortgage-related securities.

The bill would preempt certain state legal investment and blue sky laws with respect to small business related securities. Investors could purchase small business related securities to the same extent that state law (such as banking or insurance law) permitted them to invest in U.S. government or agency securities. Small business related securities would be exempt from state securities registration or qualification requirements to the same extent as U.S. government or agency securities. A state could, however, override any of these preemptions of its laws by enacting a statute to that effect within seven years after this bill became law.

The bill would amend the banking laws to modify the regulatory capital and accounting treatment of small business related securities held by qualified insured depository institutions.[1]

With respect to pension laws, the bill permits the Department of Labor, in consultation with the Treasury Department, to exempt transactions involving small business related securities from the restrictions of the Employee Retirement Income Security Act of 1974 (ERISA) and the taxes imposed under section 4975 of the Internal Revenue Code of 1986. This exemption will enable financial institutions that manage pension funds to also package and sell small business related securities. The Labor Department has a strong interest in small business securitization, particularly as it relates to investments by pension plans. The Department wants to encourage pension trustees to make that kind of investment so long as it accords with the trustees' duties under ERISA, and it views this proposal as a tool for promoting job creation and economic growth.

As for tax laws, the bill declares the sense of the Senate that taxation of a small business loan investment conduit should be similar to the taxation of a real estate mortgage investment conduit. It defines a "small business loan investment conduit" as any entity whose assets substantially consist of small business loans originated by

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[1] An insured depository institution is a qualified institution if it is well capitalized or, with the approval of the appropriate federal banking agency, adequately capitalized.

insured depository institutions, credit unions, insurance companies, financing companies, or leasing companies.

The Administration supports the overall objectives of these provisions. Securitization will fulfill a useful role in the market by supplementing the making and holding of loans, although the extent of this role cannot be predicted ahead of time. The mechanism for structuring small business loan securitization, as envisioned in this bill, is the proper approach to encouraging a secondary market. The bill places a reliance on the private sector to develop a market, avoiding the potential expansion of government liability for non-guaranteed small business loans that is inherent in some other proposals.

It is also important to avoid reducing investor protection, and these provisions leave all such protections in place. For example, the disclosure and liability provisions of the federal securities laws will continue to apply. Moreover, the participants in the securitization process will have their reputations on the line, thus adding an economic incentive for protecting investors.

We believe that securitization of small business loans can be consistent with the safe and sound operation of the financial system. However, as I noted earlier, it is very important that the issue of asset sales with recourse be resolved in manner that promotes a proper accounting of risk and provides the regulatory agencies with flexibility in addressing capital and accounting matters.

The market for securitized small business loans is in the process of developing. Sellers and buyers are becoming familiar with these securities and over time more securitized loans will be available and more investors will be interested in purchasing them. The Administration strongly supports removing obstacles to the development of this market; government need not stand in the way of its evolution.

III. Securitizing Commercial Mortgages

In addition to small business lending, credit availability concerns have also been raised with regard to commercial mortgages. As with loans to small businesses, facilitating the development of a secondary market for commercial mortgages has been proposed as one solution. The secondary market for commercial mortgages is larger than that for small business loans. However, only $5.2 billion in commercial mortgage-backed securities were offered to investors between 1988 and 1992. This amount is dwarfed by the $973.5 billion residential mortgages-backed securities offered in the same period.

The secondary market for commercial mortgages is unlikely to ever grow as large as the residential market. Commercial mortgages have the same sort of diversity of terms that exist with small business loans. They differ according to type, tenant mix, lease terms, and maturities. However, this lack of standardization is currently being addressed as a consortium of financial institutions and real estate firms are beginning to assemble data on loan performance and develop uniform underwriting and documentation standards.

Nonetheless, the development of a larger market for commercial mortgage-backed securities will offer many benefits. It will, for example, impose additional discipline in the allocation of credit for commercial real estate. During the late 1980s, the economy and our financial institutions suffered as commercial real estate markets tumbled. A secondary market will reduce the likelihood of overbuilding as pricing in the secondary market will help signal when originators are extending too much credit. Conversely, a secondary market will ease unnecessary credit constriction during an economic downturn.

Further, a larger secondary market for commercial mortgages will promote a safer and sounder banking system. Banks whose commercial mortgages are located in one geographic area are more likely to face difficulty in a regional recession. A larger secondary market will enable banks to diversify out this geographic risk.

Section 347 of H.R. 3474 is designed to stimulate the secondary market for commercial mortgages by removing securities law barriers that inhibit the sale of securities backed by commercial mortgages. Section 347 would add securities backed by mortgages on commercial property to SMMEA's definition of "mortgage-related security," and thereby extend the benefits of SMMEA to commercial mortgages. In fact, the Senate version of SMMEA, passed in 1984, included commercial mortgage-backed securities. The House version, which ultimately prevailed, omitted commercial mortgages. As discussed previously, SMMEA attempted to increase the demand for, and the market value of, privately sponsored mortgage-backed securities by broadening the investor base for mortgage-related securities.

National banks would be authorized to purchase the commercial mortgage-backed securities, subject to the regulations of the OCC. The OCC would be required to promulgate final regulations, within one year after the date of enactment, to regulate this activity. The section would become effective on the date that the final regulations are issued.

Finally, commercial mortgage-backed securities would not be deemed mortgage-related securities under the Securities Exchange Act of 1934 if a state, within seven years of the date of enactment, passes a law that specifically prohibits or provides for more limited authority to purchase, hold or invest in such securities.

The Administration supports amending SMMEA to include commercial mortgages as it would lead to a larger market for commercial mortgage-backed securities.

IV. Conclusion

Providing credit to small businesses is an important and continually challenging task. Securitization is one of many potential methods of improving credit availability to foster economic growth and one that should be facilitated by removing unnecessary barriers.

Despite these important benefits, I would be remiss if I failed to note two caveats. First, the securitization of heterogenous assets, like small business loans, will lead to uniformity in underwriting standards. Although beneficial in the aggregate, such uniformity may render borrowers with more unique characteristics unable to obtain credit at a reasonable cost. Second, any facilitation effort must ensure that the benefits of altering the rules for securitizing assets outweigh the costs.

The Administration supports the provisions discussed above and looks forward to working with this Subcommittee on the community development financial institutions legislation and on other efforts to promote growth.

I will be pleased to respond to any questions the Subcommittee may have.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

For Release Upon Delivery
Expected at 10:30 AM
June 14, 1994

STATEMENT OF
DARCY BRADBURY
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR FEDERAL FINANCE
BEFORE THE
SUBCOMMITTEE ON
ENVIRONMENT, CREDIT AND RURAL DEVELOPMENT
COMMITTEE ON AGRICULTURE
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to discuss some of the issues raised by the reports on derivatives markets prepared by the Commodity Futures Trading Commission and the U.S. General Accounting Office. Your letter of invitation also requested that Treasury represent the views of the Working Group on Financial Markets. I would like to state at the outset that while the Secretary of the Treasury is the chair of the Working Group on Financial Markets, it would not be appropriate for Treasury to represent the views of the other independent agencies that participate in the Working Group. However, I will be able to discuss some of the activities and discussions of the Working Group with respect to derivatives. I am the senior official representing Treasury in the staff activities that support the principals' meetings.

Before I discuss the CFTC's very useful report on <u>OTC Derivative Markets and their Regulation</u>, I want to comment on a few matters concerning the CFTC itself.

As this subcommittee is well aware, the legislative process that culminated in the Futures Trading Practices Act of 1992, which reauthorized the CFTC, was long and arduous. One, though far from the only, much-debated issue in that process was the over-the-counter or OTC derivatives market. The participants in this fast-growing market were anxious to remove the legal uncertainty concerning OTC derivative contracts raised by the Commodity Exchange Act (CEA). Representatives of the futures industry were concerned about competition in the risk-transference business from less regulated competitors.

One of the landmark provisions of the Futures Trading Practices Act was the exemptive authority in Title V which enabled the CFTC to remove the legal uncertainty concerning many over-the-counter derivative transactions due to the possible applicability of the exchange trading requirement of the Commodity Exchange Act to these contracts. The CFTC's prompt use of its new exemptive authority in order to remove the threat that some OTC derivative contracts might in some future legal proceeding be found to be illegal under the CEA, and hence unenforceable, was a very positive and helpful step.

The Congress, though, in reauthorizing the CFTC decided to renew the agency's authorization for a period of only two years. Given the short period that has elapsed since passage of the Futures Trading Practices Act, the Treasury Department supports the simple reauthorization bill for a period of five years which has been introduced by Chairman de la Garza with Chairman Johnson, Mr. Roberts and Mr. Combest. We believe that the important policy discussions can and should be severed from discussion of the CFTC's authorization.

Also, the Treasury believes that it is premature to consider any other major changes to the CEA concerning OTC derivatives or any other subject since major changes to the CEA were enacted recently after a deliberative legislative process that lasted three years. The Treasury has not concluded that other legislation concerning OTC derivatives is necessary or appropriate at this time. Each of the federal financial regulatory agencies we have spoken with is reviewing their regulatory approaches and amending and updating their regulations and guidance. These regulatory agencies have not exhausted their existing regulatory authority in responding to the new policy challenges the OTC derivatives markets pose.

This does not mean that we may not see a need for the CEA to be amended before five years. For example, the Treasury has had a continuing interest in a provision of the Commodity Exchange Act known as the "Treasury Amendment," a provision that was put into the CEA, on the recommendation of the Treasury Department, in 1974 at the time of the creation of the CFTC as an agency separate from the Agriculture Department. Without getting into too much detail, the Treasury Amendment excludes transactions in foreign currency, government securities, and a list of other instruments from the provisions of the CEA unless such transactions "involve the sale thereof for future delivery conducted on a board of trade." The Treasury has a strong interest in the foreign currency and government security markets. In recent years, we have been concerned that a narrow reading of the Treasury Amendment could stifle innovation and have other undesirable impacts on the government securities market, which since 1986 has been subject to regulation under the Government Securities Act.

Consequently, we were pleased with the Fourth Circuit decision in the Tauber case, which holds, among other things, that options in foreign currency, whether exercised or not, are excluded from the provisions of the CEA. We are sympathetic to the law enforcement concerns of the CFTC in connection with foreign exchange futures contracts marketed to the general public. We are prepared to work with the CFTC on this issue.

The CFTC's October 1993 report on the OTC Derivative Market and their Regulation is a useful survey of these markets and their regulation. In particular, the Treasury agreed with the principal recommendation that there be an interagency mechanism to coordinate government policy with respect to OTC derivatives. Shortly after the release of the CFTC's report, Secretary Bentsen wrote a letter to the other principals of the Working Group on Financial Markets, the chairs of the CFTC, the SEC, and the Federal Reserve Board, that effectively reactivated this group (originally created by Executive Order in the wake of the 1987 stock market crash), directed Under Secretary Newman to coordinate Treasury's efforts, and put derivatives as a major item on the Working Group's agenda.

The principals of the Working Group, along with staff, have been meeting on a regular basis, approximately every four to six weeks. As someone who has been present, I can assure you that these meetings are substantive and have had an impact on the work of and cooperation among the agencies represented.

The staffs of the agencies noted above together with staff from other interested agencies and bureaus, including the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Reserve Bank of New York, the National Economic Council, the Office of Management and Budget, the Council of Economic Advisers, and the Federal Deposit Insurance Corporation, meet and discuss issues, often more than once a week. This process has served to enhance the information flow and working relationships among the agencies.

One example of the agencies' joint efforts is in the area of improved disclosure. Currently, there is general consensus that accounting rules and disclosure rules for derivatives-related activity are inadequate. The Working Group staff, at the request of the principals and led in this matter by the Securities and Exchange Commission, has met with representatives of the Financial Accounting Standards Board to exchange views on their derivatives-related projects, and encouraged them to proceed with their projects expeditiously.

Discussions also are underway by the Working Group on such subjects as the data available to the government concerning derivatives markets, how the more regulated investors such as mutual funds and pension funds are using derivatives, capital requirements for derivatives, and the state of the law regarding bilateral close-out netting in insolvency situations. The Working Group is also cognizant that this is an international market and is undertaking to ensure that the government has adequate tools to deal with problems that may arise.

With respect to the recently released GAO report on derivatives, it provides much useful information and presents recommendations that serve to further the debate. We particularly agree with the GAO that work needs to be done in the accounting area. I mentioned previously the activities of the Working Group and the specific agencies in the accounting area.

While the GAO's assessment that the derivatives market is overly concentrated is debatable (15 major U.S. dealers with less than a 50% market share and substantial foreign competition does not seem excessively concentrated), we strongly agree with the GAO report that internal controls and risk management systems for dealers and end-users of derivatives are vital. This is consistent with the Group of Thirty report and guidance put out by the banking regulators. For example, the Office of the Comptroller of the Currency, which is a part of Treasury, has issued Banking Circular 277 to the chief executive officers of all national banks providing guidance to bank management on managing the risks of financial derivatives.

The GAO report notes that there are "differing views on the implications of the extent of derivatives use, concentration of activity, and expanded linkages should a financial crisis occur."[1] The issue of systemic risk is being reviewed by the Working Group.

However, we do not believe that sufficient information has been developed at this time to conclude that the unregulated derivatives affiliates of registered broker-dealers and insurance companies should be brought under a comprehensive scheme of federal regulation. As a general principle, there should be a demonstration that there has been or will be a failure of market discipline before the need for such broad federal regulation is advanced. There is no doubt that the tremendous growth in the use of derivatives and the new forms that derivatives are taking necessitate that all the federal financial regulators review their areas of responsibility to see if there are inadequacies or gaps. That process is underway, and until it has been completed, it is premature for the type of legislation the GAO recommends for consideration.

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[1]GAO report, <u>Financial Derivatives: Action Needed to Protect the Financial System</u>, May 1994, p. 39.

For example, in the area of capital, the marketplace currently demands that OTC derivative dealers achieve and maintain high credit ratings. However, the issue of capital adequacy should be monitored, and, with respect to unregulated affiliates of broker-dealers and futures commission merchants, it is our understanding that the SEC and the CFTC currently are monitoring this closely. Furthermore, over time the impact of the Market Reform Act of 1990 and the 1992 CEA amendments to improve the regulators' access to information about the markets and market participants should be evaluated. The Working Group is considering these issues, and the communication and cooperation resulting from these discussions will help to build consensus for any future changes.

Generally, the OTC derivatives market has worked well, and we believe that some of the concerns about this market are exaggerated; nonetheless, diligence and attention to the new issues are needed. Many users of these markets have found them helpful for managing their risks or, in some cases, reducing their financing costs. Derivatives can also be an effective way to invest. For example, some investors who want to have a portion of their assets in a smaller, less liquid market such as an emerging market, might find it more effective to buy a U.S. security that has a return based on a basket of securities from that emerging market.

While derivatives offer substantial speculative opportunities to those so inclined, they also offer custom-tailored instruments to corporations and others to manage and reduce their financial risks, thereby enabling them to concentrate on their businesses. For example, a manufacturer is presumably expert in the markets for the products it sells but not necessarily in the potential direction of interest or currency rates. The OTC derivatives markets, along with the exchange-traded futures and options markets, can enable a manufacturer to reduce or manage the financial risks that emerge from a global business strategy.

With respect to the losses reported by some firms in the derivatives markets, it appears that certain corporations were in fact using these markets to speculate. Their experience should serve as a cautionary tale, and we have heard that the senior managements of many U.S. corporations are now reviewing their firms' use of derivatives. It has not been U.S. government policy for sophisticated U.S. corporations to be protected by regulation from making bad business decisions with respect to their finances. The lesson has once more been forcefully made that speculative positions in derivatives or in the stock and bond markets directly can lead to substantial losses.

Finally, the Working Group is discussing whether derivatives are likely to exacerbate severe market movements. The increased use of derivatives would impact both the details of the development and the aftermath of a severe market movement. How the failure of a major derivatives market participant would be handled (regardless of whether derivatives were the cause) is also an issue being discussed by the Working Group. The federal government should make every effort to understand these potential impacts, and we believe that this is being done, through the Working Group process, as well as through efforts by the relevant government agencies. There is a strong commitment by the senior government officials responsible for financial market issues to expend substantial resources in monitoring and understanding these fast-developing and growing markets.

While the Treasury believes that these markets deserve considerable attention, thought, and study, there is no imminent threat that requires a quick, aggressive legislative response. On the contrary, hurried legislative responses run the risk of being counterproductive.

While the Treasury does not see the need for major derivatives legislation at this time, as I noted earlier, many aspects are under discussion. If there comes a time that we determine the federal government, and particularly the regulatory agencies, has exhausted its authority in this area and cannot adequately address problems, we will of course alert Congress to this and offer our proposals.

Mr. Chairman, that concludes my prepared statement. I would be happy to respond to any questions the Subcommittee may have.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
June 14, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
NORTH CAROLINA BUSINESS LEADERS
WASHINGTON, D.C.

Thank you Congressman, and good morning.

Steve Neal, we're going to miss you. I want to thank you for the good things you've done for North Carolina and for our country.

In March, I was with the President in Dallas, and he went to see the Razorbacks in a NCAA regional. The next week, he went to North Carolina for the Final Four. You know what happened against Duke.

I thought at the time: now, he better watch himself. I know he's the first fan, but North Carolina has more electoral votes than Arkansas and he didn't carry the state.

Well, I notice the President sent the First Lady here today. I'm here. Half the Administration will be here. You don't think he's making peace, do you?

Last year, I spoke to you before the budget vote. Today, I want to revisit that one -- to see if you think we messed up the economy, or if we delivered what we promised. Then I want to talk GATT.

The first two priorities were clear from the first day we walked into office: fix the budget and create jobs.

I remember in 1988 I ran for Vice President and in the debates I said, if you let me write $200 billion in hot checks, I could make a country feel good, too. I wish it was only $200 billion.

When I came into Treasury, we were headed for $300 billion a year. Too many years of "Let's give everybody the moon, and we'll worry how to pay for it later."

LB-886

We set a goal -- cut $500 billion in five years. Half from cuts. Half by raising taxes.

We needed every vote to get it through Congress. We won by one vote.

Let me tell you some results.

We're ahead of schedule on deficit reduction. Ahead of schedule. The deficit will be down for three consecutive years. First time that's happened since Harry Truman.

It's a good time to be Treasury Secretary!

We've cut the payroll. I was speaking to a business group last month, and I said that since 1992 the federal government has shrunk by 100,000 people. A man yelled out: "Praise the Lord!"

We've only just begun. We'll cut more than a quarter of a million people.

The fundamentals in the economy are good. I see low inflation -- less than 3 percent. Congressman Neal has been a strong advocate of low inflation.

Some people worry that with a strong economy inflation will rise. Last Friday, May's producer price index fell 0.1 percent. This morning, we learned the consumer price index has risen only 0.2 percent in May. Inflation is pleasantly low in this phase of the business cycle.

Short-term interest rates have risen lately. The Fed raised them as a pre-emptive strike against inflation. But compared to historical levels, they're low. I remember when the prime rate was 19 percent and inflation was 13 percent -- and you try selling houses then.

Rising rates are a worry if they threaten to choke off investment, but I don't see that at this level.

The economy grew in the first quarter by 3 percent and in last year's fourth quarter by 7 percent. The Japanese and Europeans would gladly take those numbers.

Of course, Wall Street has a funny way of reacting to numbers. When a company announces they're downsizing, the stock goes straight up. When the government announces growth is up -- what happens?

Bond and stock prices tumble. They're worrying we're growing too fast.

If I understood the financial markets, I wouldn't be Treasury Secretary. I'd be on my yacht!

Now, our second priority on day one was to create jobs.

Governments shouldn't hire -- businesses should. Since the President took office, almost 3 1/2 million jobs have been created. By President Clinton's 14th month in office, more jobs were created than in all four years of the previous Administration.

If you don't think job creation is important, George Bush would not be living in Houston right now.

Today, 8,000 more people find new jobs every day in America than lose them.

Job creation has not been easy -- not when you pick up the paper and you read about job losses at the Fortune 500.

I went to the D-Day Ceremonies earlier this month. Fifty years ago, on D-Day, we had 350,000 Allied troops invade Normandy. Just six American companies have let go of that many people in the last three years.

When we won Word War II, veterans came back and found jobs. It wasn't the same for Cold War vets.

But what you don't read about in the paper is how the big companies outsource to small businesses, who add a welder here and a salesman there. You don't read about the entrepreneurs in small firms -- the risk takers.

Our companies are competitive right now. For eight quarters, American businesses have made double digit investments in equipment. Labor/unit costs have shown very little increases. Businesses have switched from debt to equity. And they've refinanced long-term debt at lower rates.

They're ready to take on the world, and that's the next item on our agenda -- GATT. The General Agreement on Tariffs and Trade.

There are what -- 250 people in this room? If this room represented the world, 10 of you would be American customers. That's it. Everybody else would be living in other countries.

I was in business 16 years. And the way I read that is -- we better meet the neighbors. That's where the market opportunities will be. That's where the new customers will be. That's where the growth will be.

By the year 2000, even leaving Japan out, some 75 million Asian households will have incomes comparable to middle-income Americans.

In January, I was in China, Thailand, and Indonesia. When you're standing on a new bridge in Shanghai, or you're watching in Bangkok businessmen use cellular phones because the traffic is so horrible it's easier to call than to meet -- you realize how fast those economies are growing.

GATT has been signed by about 120 nations. It will open markets. It will globally cut tariffs by one-third. Now it's time for our Congress to ratify it.

It's worth five NAFTAs to us -- that's how big it is. For eight industrial sectors, foreign duties will be completely eliminated. For 20 others it'll reduce tariffs. It'll give solid patent protection. It'll create at least 400,000 jobs, we think.

The reason I say "we think," is that this agreement is so big, it could have such far-reaching impact to our businesses, it includes economies that we've hardly dealt with before -- that our economists haven't had the opportunity to forecast something like this. So, I'm being conservative in my numbers. It may create hundreds of thousands more jobs than that.

Look at what we said during the NAFTA debate, vs. what has happened. We were right.

Since NAFTA, our exports to Mexico are up 16 percent. Soon Mexico could overtake Japan as our number two export market.

Look at car sales. That was the big concern of the UAW. At this time last year, the Big 3 sold 2,000 American-made vehicles in Mexico. With NAFTA, they've sold 15,000 units. That's jobs for Americans.

In the last eight years, look at which American industries have boosted their exports the most around the world. Electrical machinery, up $31 billion. Road vehicles, up $22 billion. Airplanes, up $18 billion. Computers and office equipment, up $16 billion. Power generating machinery, up $10 billion.

I could go on. Telecommunications, scientific instruments, specialized machinery, and industrial machinery. Exports are up $152 billion in these categories.

And every one of them will be covered by GATT. Their growth in the past eight years makes up 2.5 percent of everything produced in the United States today. That's growth with markets not open like they should be. Think of the expansion opportunities under GATT.

Will GATT be good for North Carolina? On balance yes -- but my friends in textiles aren't convinced yet.

But North Carolina is more than a textile state. North Carolina is a big producer of electrical equipment, chemicals, and furniture -- and it will be good for all of that.

It will be good for the high-tech quarter around Research Triangle Park.

The numbers are preliminary, but 10 years from now, we think the U.S. will export an extra $200 billion per year because of GATT.

Of that $200 billion, $8 billion, or four percent, will be produced in North Carolina. Employment in North Carolina will rise by 16,000, vs. having no GATT.

During the NAFTA debate and during the budget debate -- we argued that you need to pass something, or else all you'll get is the status quo, and the status quo wasn't good.

This one's different. No GATT, and we don't even get to keep the status quo.

Say you're a company in France or Germany that sells products to England. England cuts the tariff for the French and Germans. But England may not cut the tariff for the Americans, if we don't sign up.

So, our businesses have just taken a big hit, haven't they? It would be a tremendous disadvantage for them vs. their French and German competition. That's not keeping the status quo, that's putting them 10 points under.

If we don't sign up for GATT, it would send a shockwave around the world. Where is the U.S. going? We lead the fight for seven years -- through three Presidents -- to negotiate this, and now we turn our backs.

I have the Chancellor of the Exchequer from England, I have the Finance Minister of France, I have the Finance Minister of Germany -- all calling me and saying: "Lloyd, is it possible? Is it possible that the United States would not ratify GATT?"

They're asking because there's a catch to GATT. GATT will take $12 billion in lost revenues from the budget. And under the budget rules, we have to make that up -- every last dime of it.

We get no credit that once business expands because of GATT more revenues will come in. No credit that over the next 10 years, because of the increase in business, this could reduce the deficit by $60 billion.

They don't have such provisions in the budgets of England, France, and Germany. Only us.

Having been in the Senate, I know what happens if you waive the budget for GATT. It's a slippery slope down. We can't fudge this one.

I tell those finance ministers, it'll pass. We'll find the money. It will be tough, but we'll find it.

Let me end where I started: I said the first day on the job, our priorities were clear: cut the deficit and create jobs.

Now on the agenda we have health care and the crime bill to pass. But look at GATT. It goes back to the fundamentals we set out to do on day one. It will create jobs. It will cut the deficit. We need to seize that opportunity.

So I hope you can help on this one. We'll need you.

-30-

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR RELEASE AT 2:30 P.M.
June 14, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $24,000 million, to be issued June 23, 1994. This offering will result in a paydown for the Treasury of about $1,775 million, as the maturing weekly bills are outstanding in the amount of $25,771 million.

Federal Reserve Banks hold $6,174 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $1,888 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

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

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

oOo

Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS TO BE ISSUED JUNE 23, 1994

June 14, 1994

Offering Amount	$12,000 million	$12,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 L7 7	912794 P5 7
Auction date	June 20, 1994	June 20, 1994
Issue date	June 23, 1994	June 23, 1994
Maturity date	September 22, 1994	December 22, 1994
Original issue date	September 23, 1993	June 23, 1994
Currently outstanding	$28,115 million	---
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

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

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

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

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

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

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For Release Upon Delivery
Expected at 10:00 a.m.
June 15, 1994

STATEMENT OF THE HONORABLE

FRANK N. NEWMAN

UNDER SECRETARY OF THE TREASURY

(DOMESTIC FINANCE)

BEFORE THE COMMITTEE ON BANKING,

HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

JUNE 15, 1994

LB-888

Statement of the Honorable Frank N. Newman
Under Secretary of the Treasury
(Domestic Finance)
on Federal Home Loan Bank Reform

Before the
Committee on Banking, Housing, and Urban Affairs
United States Senate

June 15, 1994

Summary

- The testimony discusses the Treasury's views on the findings of five reports on the Federal Home Loan Bank System mandated by the Housing and Community Development Act of 1992.

- The Treasury agrees with the reports that the System needs significant reform and that the interconnectedness of major issues involved -- capital, membership, regulation and governance, mission, REFCorp -- requires comprehensive, not piecemeal, legislation.

- Besides protecting taxpayers, System capital structure and capital requirements should preserve the System's cooperative nature. Capital requirements should be risk-based and easily implemented. There should be sufficient time resilience to redeemable member stock so that it is unlikely that too much capital will drain out of the System at any one time. The possibility that a member could not redeem all of its stock investment if the FHLBank were facing serious financial difficulties should provide members with a strong incentive to ensure that such conditions are avoided through prudent risk-management practices.

- Different capital options are being explored. There are a number of concerns with any capital structure that calls for publicly traded stock. Fixing the weaknesses with the System's capital structure does not necessarily require a complete overhaul of the current structure. The Administration will develop comprehensive legislation which will include capital recommendations early next year.

- The Bank System's regulator, the Federal Housing Finance Board (FHFB), currently has three sometimes conflicting responsibilities -- program oversight, safety and soundness regulation, and governance. The Administration is examining how the Bank System's safety and soundness regulation can best be strengthened and how the rest of the FHFB's current responsibilities should be distributed.

- Membership in the System should be voluntary for all eligible members and membership rules should apply equally to all System members. All members should have the same incentives with regard to the System and share the benefits and obligations of membership equally. Member institutions should have at least 10 percent of their assets in whole residential mortgages to strengthen the nexus between membership and mortgage lending.

- The System's public mission should be to support mortgage lending and community development lending in a safe and sound way. The collateral requirements for advances should remain unchanged because the current collateral requirements minimize the credit risk in making advances and preserve the link between advances and mortgage lending.

- The overall strength of the Bank System could be improved by altering the internal allocation of the REFCorp obligation. With voluntary membership, equalized access to the Bank System, and restructured capital rules, a change in the allocation formula may be both appropriate and acceptable to the majority of System members.

For Release Upon Delivery
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June 15, 1994

STATEMENT OF THE HONORABLE
FRANK N. NEWMAN
UNDER SECRETARY OF THE TREASURY
(DOMESTIC FINANCE)
BEFORE THE COMMITTEE ON BANKING,
HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
JUNE 15, 1994

Chairman Riegle, Senator D'Amato, and members of the Committee, thank you for the opportunity to discuss the Treasury's views on the recently completed reports on the Federal Home Loan Bank System and to offer the Treasury's thoughts on developing a comprehensive legislative proposal to modernize the Bank System. We are happy that the Congress and the Administration are working together to review systematically the purposes, operations, and safeguards of the Bank System.

The reports being discussed today all show that the Bank System remains a healthy and important part of our housing finance system. Yet they also point to the need for comprehensive updating of the System's mission, structure, capital requirements, and regulatory oversight. Today's hearing will be an important supplement to the reports and is the appropriate next step in the process. Together with the reports, today's hearing should help provide a map for the Administration and the Congress in developing a comprehensive legislative package to update and strengthen the Bank System to keep it a vibrant source of housing credit into the 21st century. On behalf of the Administration, the Treasury Department looks forward to introducing such a legislative proposal by early next year.

I. Recent Reports Point to the Need for Comprehensive Restructuring of the Bank System

Since its inception in 1932, the Federal Home Loan Bank System has been an important source of mortgage credit for home buyers. Federal Home Loan Banks sell bonds in the securities market at rates only slightly higher than Treasury's and lend the proceeds (in the form of advances) to their thrift and bank institution owner-members, who in turn are able to lend this money to home buyers. Debt securities of the Bank System, like those of other Government-sponsored enterprises (GSEs), trade in the market at yields that reflect a perception of an implicit Government guarantee although no such guarantee, either expressed or implied, exists. Also, interest earned on Federal Home Loan Bank debt securities is exempt from state and local income taxes.

The housing finance market has changed dramatically since 1932. Two other housing-related GSEs, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), as well as the Government National Mortgage Corporation (Ginnie Mae) and various private firms now provide means for depository institutions to sell the mortgages they originate into the secondary market.

At the same time, the Bank System continues to operate largely as it was initially structured and it remains oriented towards depository institutions that originate and hold mortgages in their own portfolio. As of April 30, 1994, the Bank System had about $187 billion in assets, of which $101 billion was advances outstanding and $83 billion was investment securities (including about $27 billion in mortgage-backed securities).

The Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 introduced the first major structural changes to the Bank System by opening System membership to commercial banks and credit unions that met threshold tests for mortgage lending. As of April 30, 1994, the System had added 2,524 commercial bank members and 62 credit union members, which together with the 2,139 thrift members and 19 insurance company members brings total membership to 4,744 institutions. Thus, more than half of all System members are now commercial banks. FIRREA added two new public policy goals for the Bank System. It required each Federal Home Loan Bank to establish an Affordable Housing Program (AHP) in which the Bank makes subsidized advances and grants for qualifying affordable housing ventures. FIRREA also made the Community Investment Program (CIP) a statutory requirement in which the Banks make at-cost advances for qualifying mortgages and community development purposes. FIRREA required the Bank System, which at the time was owned primarily by savings and loan associations, to help pay for the cost of the thrift cleanup. The Act directed the Bank System to contribute $2.5 billion of its retained earnings to capitalize the

Resolution Funding Corporation (REFCorp) and required the System to pay $300 million a year for 40 years towards interest payments on bonds issued by REFCorp (this is known as the REFCorp obligation).

The Housing and Community Development Act of 1992 called for five comprehensive studies of the Federal Home Loan Bank System. These studies, prepared by the Department of Housing and Urban Development (HUD), the Federal Housing Finance Board (Finance Board), the General Accounting Office (GAO), the Congressional Budget Office (CBO), and the Federal Home Loan Bank Stockholder Study Committee, provide us with an assessment of the System's current structure, including the changes made in FIRREA. The reports generally conclude that the System continues to serve an important function and that it operates in a safe and sound manner. Yet most of the reports also urge that comprehensive changes be made to keep the Bank System vital and healthy. Let me briefly summarize for you some of the important conclusions from these reports and offer the Treasury's assessment of these conclusions. I will begin with the future role and structure of the Bank System, and then discuss how to ensure its continued safety and soundness.

A. The Bank System's Public Mission Should be to Support Mortgage Lending and Community Development Lending

Most of the reports noted the lack of an explicit statement of public purpose, or mission, for the Bank System and several offered possible mission statements. There was a general consensus among the reports that the primary purpose of the Bank System should continue to be facilitating the provision of housing credit through low-risk, collateralized advances to home lenders. The HUD and Finance Board reports each recommend that this current purpose be broadened to encompass community development lending.

The Treasury Department agrees with the need for an explicit mission statement for the Bank System and endorses the statement of purpose in the HUD report:

> The Federal Home Loan Bank System is a profit-making enterprise whose purpose is to support residential mortgage lending (including mortgages on housing for low- and moderate-income families), as well as community development lending, throughout the Nation, safely and soundly, primarily through a program of collateralized advances to System members. The System facilitates such lending by increasing the liquidity and improving the distribution of

investment capital available through its member institutions.[1]

We believe that this statement of purpose affirms the important role played by the Bank System in making mortgage credit available while also recognizing the appropriate use of advances to finance community development activities for targeted areas and populations. The statement of purpose also recognizes the need for the System to be a profit-making enterprise and the fundamental need that the System operate safely and soundly. Importantly, we also strongly affirm the recommendation in the HUD report that collateral requirements remain unchanged. These requirements serve two critical purposes: (1) they serve to minimize the credit risk in making advances, and (2) they preserve the link between advances and mortgage lending.

This statement of purpose also limits the possible new products and services that could be offered by the Federal Home Loan Banks. We believe that is appropriate, since any GSE should be limited to a well-defined line of business. We concur with the conclusions reached in the reports that permitting Federal Home Loan Banks to securitize mortgages or make construction loans would be an inappropriate expansion of System activities because these activities are already established in the marketplace. Also, we generally concur with the strict criteria developed in the GAO and Stockholder Study Committee reports that could be used by the regulators to assess the appropriateness of possible new Bank System activities.

B. Membership Rules Should Consistently Apply to all System Members

By permitting commercial banks and credit unions to join the Bank System, FIRREA fundamentally altered the System's membership structure. Prior to 1989, nearly all Federal Home Loan Bank members were required by statute or regulation to be System members. Today, over half of all System members are voluntary members: that is, they have freely chosen to join the System and, with certain limitations, they can also freely exit the System. In addition, state-chartered, Savings Association Insurance Fund (SAIF) insured savings associations, which are currently mandatory members, will become voluntary members next April. This will leave just federally chartered, SAIF-insured savings associations as mandatory members. All the reports agree that this particular structure of two membership classes--mandatory

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[1] U.S. Department of Housing and Urban Development, Report to Congress on the Federal Home Loan Bank System, April 19, 1994, page 21.

and voluntary--is unfair to the mandatory members and may result in differing risk management incentives between the two groups.

We concur that System membership should be voluntary for all eligible members. Voluntary membership has several attractive features. First, it provides a clear market signal as to whether the Bank System provides economic value to its members. If the System no longer provides value, now or in the future, members would be expected to leave the System, thereby sending a clear message that this GSE may no longer be needed. Second, it gives all members the same incentives with regard to the System. Since all members could request to leave the System if their Bank began to experience financial difficulty, voluntary members would no longer be able to "put" their share of the Home Loan Bank's embedded losses to the mandatory members. Third, voluntary membership creates better incentives for Federal Home Loan Bank managers to operate their Banks efficiently and to be responsive to their member/shareholders. While important transitional issues exist with making membership fully voluntary, we believe that this change can be done in a way that actually improves the System's safety and soundness by putting all members on the same footing.

Consistent with making membership voluntary for all eligible institutions, we believe that the same rules of access should apply to all members. Membership rules should not differentiate either stock purchase requirements or access to advances based on whether or not a member satisfies the qualified thrift lender (QTL) test.

Finally, as recommended in the reports, we believe that membership eligibility should not be extended beyond the currently eligible group of depository institutions and insurance companies. In fact, we believe that eligibility requirements should be somewhat tighter than they are today. We agree with HUD's conclusion that member institutions should have at least 10 percent of their assets in whole residential mortgages and that this should be an ongoing requirement that members should satisfy.

This raises an important concern in formulating changes to the System's mission and membership rules. We do not want to see "Home Loan" taken out of the Federal Home Loan Bank System. This means that the System's activities should not expand beyond housing finance and community development. It also raises the question of the linkage between advances and members' support of housing finance.

There needs to be a continual evaluation of whether the System is satisfying its public policy purpose of supporting housing finance. One test of this needs to be members' minimum commitment to housing finance. Members that satisfy the QTL test demonstrate a serious commitment to housing finance. It is less clear that a depository institution with only ten percent of its assets in mortgages has the same relative commitment. At a minimum, we believe that the program regulator should be able to increase, but not decrease, the statutory threshold test defining an institution's commitment to housing finance in order to be eligible for System membership. A higher threshold would strengthen the nexus between membership and mortgage lending.

Finally, it is crucial that collateral rules retain their focus on mortgage loans both to maintain the System's safety and soundness and to uphold the link between advances and housing finance. Therefore, we join in HUD's recommendation that collateral rules not be changed in order to control the System's risks and preserve the System's basic orientation toward residential lending.

C. Fixed FIRREA Obligations Impose a Heavy Financial Burden on the Federal Home Loan Banks

FIRREA imposed two fixed financial obligations on the Federal Home Loan Bank System that must be considered in any assessment of the System. The REFCorp obligation, which I mentioned earlier, obligates the Bank System to pay $300 million annually toward the cost of protecting federally insured deposits in savings and loans that have failed over the last five years. This $300 million is allocated among the twelve Home Loan Banks in two steps. First, each Bank must pay up to 20 percent of its net income. Should the total of the Banks' initial assessment be less than $300 million, the Banks are assessed for the remainder on the basis of their outstanding advances to members with deposits insured by SAIF. The second FIRREA obligation is AHP. This year, the Bank System must pay the greater of $75 million or 6 percent of its preceding year's income towards AHP. In 1995 and in subsequent years, the Bank System must pay the greater of $100 million or 10 percent of its preceding year's income. Taken together, the fixed FIRREA obligations absorb $400 million or more of the System's annual earnings.

The problems with the fixed nature of these obligations are well documented in several of the reports. The GAO report, in particular, provides a complete description of the problems associated with the fixed nature of the REFCorp and AHP obligations, and the allocation formula used to assess the REFCorp obligation.[2] Still, as the reports each describe, budgetary considerations impede any obvious solution to the

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[2]U.S. General Accounting Office, <u>Federal Home Loan Bank System: Reforms Needed to Promote Its Safety, Soundness, and Effectiveness</u>, GAO/GGD-94-38, December 8, 1993, pp. 33-48.

current formulas outside of reallocating the REFCorp burden within the Bank System.

We believe the overall strength of the Bank System would be improved by altering the internal allocation of the REFCorp obligation. Therefore, we are looking at the possibility of altering the current REFCorp allocation formula as part of our overall structural reform package. That is, with voluntary membership, equalized access to the Bank System, and restructured capital rules, a change in the allocation formula may be both appropriate and acceptable to the majority of System members. For example, the 20 percent first-round assessment could be increased over time or the basis for the second-round allocation could be modified. Ideally, any such change could allow for a reduction in, or eventual phase-out of, Federal Home Loan Banks' holdings of mortgage-backed securities.

The Treasury is concerned with the added risks being undertaken by Federal Home Loan Banks in order to meet the fixed FIRREA obligations, especially the reliance on a large portfolio of investment securities (including mortgage-backed securities) to generate the earnings needed to satisfy these payments. While we appreciate the earnings pressure created by the FIRREA obligations, we are disturbed by the arbitrage between one type of GSE debt security and another GSE debt security currently taking place.

While the approaches to this arbitrage take many specific forms, a general example would be a Bank purchasing a mortgage-backed security that yields, say, 90 basis points over a comparable duration Treasury security, and funding it with a System debt security of equal duration on which the Bank pays, say, 30 basis points over a comparable Treasury security. In this relatively simple example, the Bank would earn a spread of 60 basis points. Thus, a $5 billion investment like this could yield about $30 million per year. However, the realized yield is likely to be different than this because market interest rate movements could have substantially different impacts on the durations of the Bank's liabilities and the mortgage-backed securities. Also, in practice, a Federal Home Loan Bank will likely fund a group of mortgage-backed securities with a group of debt securities of various maturities and other characteristics.

The primary reason a spread exists at all is the interest rate risk inherent in the mortgage-backed security, including the risk that mortgage prepayment speeds may change as interest rates change. As this risk is mitigated through various hedging strategies, the spread actually earned will fall. While the Finance Board has restrictive policies to limit the risks that may be undertaken, and the Federal Home Loan Banks each actively manage the interest rate risk embedded in their mortgage-backed securities portfolio, there are no perfect hedges in this type of activity. Therefore, at a minimum, we believe that such investments (and, in fact, the entire investment securities portfolio) should continue to be subject to strict limits established by the safety and soundness regulator and in any event should not be permitted beyond the level dictated by the earnings pressure resulting from the fixed obligations. We should also note that this activity does not add to the overall pool of funds financing home mortgage loans, and transfers interest rate risk from the private sector market to a GSE.

II. Restructuring System Capital Should Strengthen the System's Long-Run Safety and Soundness

As the five Federal Home Loan Bank reports note, the Bank System as a whole may well have more capital than it needs, given its current risk profile, but it also has the unusual characteristic that its capital lacks permanence. Currently, 65 percent of System members are voluntary members, and another 8 percent of members -- state-chartered savings associations -- will be voluntary members beginning in April 1995. Voluntary members may elect to leave the System and redeem their capital stock upon exiting the System.

Most of the reports note that the Finance Board has conflicting responsibilities as the System's governor, safety and soundness regulator, and program regulator. Ensuring the System's long-run safety and soundness requires both an appropriate capital structure and regulatory capital requirements, and a strong, independent safety and soundness regulator.

A. Goals and Criteria for Restructuring Bank System Capital

The basic goal in establishing a regulatory capital structure for the Bank System is to ensure that taxpayers are protected from any losses incurred by the System and from any problems associated with a shrinking membership base. For example, failure to make the annual REFCorp payment would likely increase taxpayer outlays. Thus, one implication of this goal is that the System must have sufficient capital to fund the assets needed to pay the fixed FIRREA obligations each year.

Besides protecting taxpayers, we believe that a second appropriate goal in establishing a capital structure and capital requirements for the Bank System is to preserve the System's cooperative nature. We believe the cooperative nature of the Bank System is worth preserving because it: (1) aligns the interests of members and shareholders because the members are the shareholders (in particular, it reduces the moral hazard problems associated with divorcing ownership risks from the benefits and obligations of borrowing advances); and (2) keeps the benefits of the Bank System that derive from its status as a GSE with housing lenders and their customers.

A third goal is to have a regulatory capital structure that promotes the economic efficiency of System operations.

Combined with these goals, we believe the following criteria should be used in assessing alternative capital structures for the Bank System:

- capital requirements should be risk-based;
- capital structure should allow individual Home Loan Banks to grow and shrink over time (this is especially important given the cyclical nature of the demand for advances);
- capital structure should not impede future consolidation among Home Loan Banks; and
- a new capital structure should be easily implemented.

B. The Reports Offer Several Options for Restructuring Federal Home Loan Bank Capital

While the five reports offer a number of approaches to restructuring Bank System capital, there is general agreement among them as to the basic risks undertaken by the Federal Home Loan Banks. First, credit risk is minimal. Advances are overcollateralized loans (that is, loans that are secured by a members' assets where the assets posted as security substantially exceed the value of the loan) and, beyond that, the Home Loan Banks have a priority interest in the assets of failed members. With respect to investments, the Finance Board's Financial Management Policy appears to limit the securities eligible for investment to only those with minimal credit risk.

A relatively new area of credit risk exposure for the System is in off-balance sheet activities. As the System relies increasingly on structured debt financing, it incurs credit risk in the derivatives transactions that are integral to such financing. For example, a Bank could provide a member with adjustable rate funding by issuing a fixed rate bond and entering into a swap agreement with a third party where the fixed rate cash flow is exchanged for the desired variable rate cash flow. In this example, the Bank has credit risk in that the failure of the third party could disrupt or cancel the swap agreement.

Home Loan Banks incur interest rate risk in both the advances they make and the investments they hold. Interest rate risk from advances is mitigated, but not eliminated, by prepayment penalties assessed when an advance is prepaid. With regard to investment securities, the Finance Board limits the amount of interest rate risk a Bank may undertake. However, the current capital rules are unrelated to a Bank's interest rate risk. Furthermore, the large holdings of medium and long-term investments, particularly mortgage-backed securities, remain a concern because of the interest rate risk associated with funding such assets. Finally, as with any financial institution, management and operations risks are also important.

The reports each suggest that Home Loan Bank capital requirements be restructured in some way. This restructuring involves both the amount and type of capital required. In general, there has been a call for more permanence in the capital base and a closer connection between risk-taking and required capital. A number of alternatives were suggested including:

- Establish a core (minimum) capital requirement equal to that set for Fannie Mae and Freddie Mac (2.5 percent of assets plus 0.45 percent of off-balance sheet obligations).

- Develop a risk-based capital requirement modeled after that used for banks and thrifts. Federal Home Loan Banks could be required to hold appropriate levels of risk-based capital, with advances weighted at 20 percent.

- Use stress tests like those being developed by the Office of Federal Housing Enterprise Oversight for Fannie Mae and Freddie Mac. Specific proposals regarding stress tests included using them to monitor interest rate risk or requiring the Banks to hold retained earnings sufficient to pass an interest rate risk stress test.[3]

- Issue stock to the general public.

- Change the weight used for Home Loan Bank stock in the bank and thrift risk-based capital requirements to that appropriate for an equity investment.

Other capital structures we have explored include establishing a permanent capital base through a required membership fee. Under another option, the Bank System could be encouraged to establish a larger permanent capital base in the form of retained earnings, while reducing the amount of redeemable capital as well as total capital. The Federal Home Loan Banks could be encouraged to retain earnings by clarifying

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[3]Because the Federal Home Loan Banks undertake minimal credit risk, a credit risk stress test may not be meaningful. See Congressional Budget Office, The Federal Home Loan Banks in the Housing Finance System, July, 1993, p. 42-43, for an explanation of the technical difficulties in applying a credit-risk stress test to the Banks.

that such earnings were the private property of the System's members with appropriate Constitutional protections. Finally, we understand that the Bank System has recently formed a committee of stockholders, public interest directors, and Bank presidents to consider alternative capital structures. The committee expects to have a proposal by this Fall and we look forward to considering the results of its work as well.

Rather than describe all the merits and limitations associated with each of these proposals (most of which may be found in the reports), I would like to voice the Treasury's concerns about problems that would be presented if publicly traded stock were issued by the Bank System. Then I would like to outline the Treasury's thoughts on an appropriate capital structure.

C. Publicly Traded Stock Could Introduce a Number of Problems

We have a number of concerns with any capital restructuring proposal that calls for publicly traded stock in the Home Loan Bank System, whether that stock is issued on a System-wide basis or Bank-by-Bank. Perhaps the most significant concern is how publicly traded stock would change the incentives underlying Bank management. Moving to publicly traded stock would mean that the System would be expected to pay explicit returns to shareholders, which would be in the form of dividends and stock price appreciation. Currently, however, System members receive substantial implicit returns in addition to the explicit dividends paid on redeemable stock (there is no price appreciation on redeemable stock; it is always carried at par). The implicit returns to members include immediate access to liquidity (which permits members to maintain fewer liquid assets on their balance sheets) and structured financing. Without the ability to benefit from these implicit returns, public shareholders may encourage the Banks to accept greater risks and to seek out new activities to increase profits. Generally, public shareholders may encourage the Banks to maximize any subsidy inherent in the Banks' GSE status, which would run counter to public policy interests in keeping the System low-risk and focussed on specific types of financing that support the public interest.

Publicly traded stock also may be inconsistent with most of the criteria described above for System capital. For example, publicly traded stock could make it difficult for Home Loan Banks to shrink and may inhibit consolidation if the stock is issued on a Bank-by-Bank basis. Moreover, implementing such a radical change would be very complex, especially given the fixed FIRREA obligations. It might also lead to numerous unintended consequences such as:

- The amount of publicly traded stock that could be successfully sold would depend on the market's forecast of future System income rather than the value the System has for its members. Furthermore, public ownership could give the System an incentive to stretch its powers to take on more risk and increase profits.

- If publicly traded stock were preferred stock, thereby having priority over members' common stock, then the dividends required for the preferred stock could be so high that in some Banks little or no income would be left for dividends to holders of the common stock. All the reports note the earnings strain created by the fixed FIRREA obligations; adding required dividends on preferred stock would increase the System's fixed obligations.

- If members' redeemable stock were made preferred stock, thereby having priority over the publicly traded common stock, then without additional measures to improve System income it is unclear that the Banks would be able to sell the common stock. If common stock were sold to the public, the members could conceivably exit the System, leaving the public shareholders with responsibility for the REFCorp obligation. In such a structure, shareholders would discount what they would be willing to pay for such stock.

- Publicly traded stock would change the cooperative nature of the System.

D. The Existing Capital Structure Can be Strengthened and Capital Levels Set Based on Risk

As I have already noted, the five reports suggest a variety of possible improvements to the System's capital structure, all of which we are considering. Many of these proposals are actually refinements of the existing structure. This suggests that fixing the weaknesses with the System's capital structure does not necessarily require a complete overhaul of that structure. Rather, a strong yet flexible capital structure can be developed simply by strengthening the existing capital's permanence, combined with a more rational, risk-based approach to setting the required level of capital.

We are still working out the specifics of what changes would need to be made for such an approach and how they would be implemented. Let me outline for you some of our general thinking at this point. "Permanent" capital as we use it means ensuring there is sufficient time resiliency to redeemable member stock so that it is unlikely that too much capital will drain out of the System as members shrink or withdraw. As noted earlier, the basic goal for the government is for capital to be sufficient, at a minimum, to protect taxpayers and ensure payment of the fixed FIRREA obligations. This can be accomplished by retaining the existing redeemable common stock structure but making redemption subject to more stringent conditions than exist today. The possibility that a member could not redeem all of its stock investment if its Home Loan Bank were facing serious financial difficulties should provide members with a strong incentive to ensure that such conditions are avoided through strong risk-management practices in the Home Loan Banks.

Today, a voluntary member may withdraw from the System and, upon six months notice, have its Bank stock redeemed at par unless the Finance Board finds that the Bank's paid-in capital is, or is likely to be, impaired. In that event, the Finance Board may make a pro rata redemption. Additional limitations on redemption could be established. For example, a limit could be placed that did not allow capital to fall below a regulatory required level. Similarly, prompt corrective action rules could be developed that would specify limits on dividend payments and capital redemptions in specified situations. Redemptions might not take place in a lump sum, but rather could be done using two or three payouts over a fixed period, with some allowance for accelerated redemptions if a Bank sufficiently exceeds its minimum capital requirements.

With clearly defined rules governing redemptions, including prompt corrective action rules, members should be otherwise free to enter and leave the System. Provided a Home Loan Bank meets its capital requirements and related rules, there should be no further impediments to a member withdrawing from the System and redeeming its capital stock in an orderly fashion according to a predetermined schedule. Of course, transition rules would need to be carefully developed if such changes to System capital rules were introduced concurrent with the introduction of full voluntary membership. Also, we believe that the existing ten year moratorium on rejoining the System after withdrawing from it should be retained.

It is also important to select an appropriate formula for determining the minimum amount of capital each Federal Home Loan Bank should have for regulatory purposes. The Banks should have sufficient capital to ensure payment of the fixed FIRREA obligations and to avoid any direct or indirect taxpayer expense. This suggests that a minimum capital requirement for Home Loan Banks should require capital at least equal to the present value of the REFCorp obligation plus some risk-based amount. The risk-based amount could be constructed as the sum of two elements, one element for credit risk -- both on- and off-balance sheet -- as well as management and operations risks, and the other element for interest rate risk.

For the first element, as suggested in several of the reports, the risk-based capital rules for commercial banks could be applied to the Home Loan Banks. Although the Home Loan Banks have minimal credit risk in the advances themselves, they have credit risk in off-balance sheet obligations and they have management and operations risks. Because of the low credit risk in Home Loan Banks, we expect that it may be possible to set this requirement slightly lower than it is set for commercial banks.

The larger measurable risk in the Bank System, and one that we believe must be carefully measured and controlled, is interest rate risk, including the interest rate risk implicit with off-balance sheet liabilities. Therefore, the second risk-based element we propose would require each Home Loan Bank to have sufficient capital to withstand significant interest rate shocks of various types. The exact approach for such stress tests and the determination of how much capital would be needed to pass them remain open questions at this time. While quite preliminary, our initial estimates suggest that current System capital is more than sufficient to meet the overall capital requirements suggested here, as long as the System's mix of assets and liabilities stays approximately as it is now and interest rate risk is adequately hedged.

While changes are needed in the statutory requirements governing System capital, the safety and soundness regulator should also be given authority to adjust the Banks' capital requirements over time. For example, the System's safety and soundness regulator should have the authority to establish minimum requirements for retained earnings.

As with any GSE, one of Treasury's primary concerns is the GSE's safety and soundness. We believe that the steps outlined here can strengthen System capital, make the level of required capital sensitive to the amount of risk undertaken by a Bank, continue to give member/shareholders a strong incentive to control risk-taking by Bank management, and make System membership economically beneficial for depositories that have a focus on home mortgage lending.

E. Strong, Independent Safety and Soundness Regulator Also Needed to Ensure the Bank System Remains Safe and Sound

Most of the reports described the problems associated with the Finance Board's conflicting roles as governor/manager for the System, safety and soundness regulator, and programmatic regulator. The HUD, GAO, Finance Board, and Stockholder Study Committee reports each recommended that the management function be separated from the regulatory functions. The HUD and GAO reports recommended merging the Finance Board's safety and soundness function into OFHEO while assigning programmatic oversight to the Secretary of HUD.[4] This would put federal oversight of all three housing GSEs--the Bank System, Fannie Mae, and Freddie Mac--in the same places.

We agree that the Finance Board's current responsibilities are in conflict. We further believe that it is essential that the Bank System have a strong, independent safety and soundness regulator to implement the regulatory reforms of the Bank System that will be part of our comprehensive reform package. We recognize that OFHEO is a new agency and that its staff is working diligently to discharge their responsibilities with respect to Fannie Mae and Freddie Mac. Given HUD's recommendation, we are examining how the Bank System's safety and soundness regulation can best be accomplished and how the rest of the Finance Board's current responsibilities should be distributed.

III. Comprehensive Reform is Needed Because of the Inter-relationships Among the Various Issues

The five reports on the Federal Home Loan Bank System mandated by the Housing and Community Development Act point the direction for comprehensive reform and updating of the Bank System. These studies each covered thirteen broad questions concerning the System. It is important to note that in the broad areas I have described this morning, there is general agreement across the five reports. This is good news, Mr. Chairman, for it suggests that a consensus on comprehensive reform is achievable.

To summarize, the reports generally agree that (1) the Bank System serves an important function in making credit available to housing lenders; (2) membership rules need to be made consistent for all eligible members; (3) the Bank System should be able to continue meeting its FIRREA obligations, although the burden of those obligations is adding risk to the System and has certain perverse incentives; (4) Bank System capital needs to be restructured, with greater permanence given to System capital, and capital levels should be risk-based; and (5) the current responsibilities of the Finance Board to be both manager and regulator need to be separated. The Treasury Department concurs with each of these conclusions.

The reports also agree on one other point, that is, that achieving these changes and improvements to the Bank System requires comprehensive, not piecemeal, legislation. Each report describes the interconnectedness of the various issues. For

[4]The GAO report also suggested that OFHEO could be merged into the Finance Board, thereby making the combined regulator responsible for all housing-related GSEs but independent of HUD.

example, moving all savings associations from mandatory to voluntary membership status must be done in conjunction with reforming the System's capital structure and rules. Otherwise, we risk a large exodus of mandatory members and possible disruption of the REFCorp payment.

Mr. Chairman, with the release of the final mandated study of the Bank System by HUD, the Treasury Department is working with HUD and others in the Administration to develop such a comprehensive reform package. As I have noted in my testimony, we do not yet have a completed proposal. We expect to complete our work by this Fall and present a legislative proposal by early next year. Working with the Committee, we look forward to the passage of comprehensive Bank System reform legislation.

DEPARTMENT OF THE TREASURY

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STATEMENT OF
LESLIE B. SAMUELS
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE

Mr. Chairman and Members of the Committee:

I am pleased to present the views of the Treasury Department on the Retirement Protection Act of 1993 (H.R. 3396). The Treasury Department actively participated in the Administration's PBGC Task Force and the Department strongly supports this package. We believe that this legislation addresses the primary causes of the recent trend of losses for the Pension Benefit Guaranty Corporation (PBGC) and that enactment of the legislation would reverse the trend of increasing PBGC deficits in a responsible manner, before the situation becomes a crisis. This morning I will discuss the portions of the bill that amend the Internal Revenue Code.

Minimum funding requirements

The bulk of the amendments to the Internal Revenue Code in this legislation relate to the minimum funding rules that are found in section 412. These minimum funding rules are designed to ensure that employers sponsoring defined benefit plans set aside assets to secure the benefit promise made to their employees. In recognition of the long-term nature of the liabilities, the minimum funding rules permit employers to fund their commitment over a number of years.

The minimum funding rules enacted as part of the Employee Retirement Income Security Act of 1974 (ERISA) were amended in 1987. These amendments require an employer with over 100 employees that sponsors an underfunded plan to make an additional deficit reduction contribution designed to eliminate the underfunding more rapidly. In reviewing the effectiveness of these rules, the Administration's task force determined that some employers with significantly underfunded plans had used loopholes in the statute that allowed them to avoid making these additional deficit reduction contributions.

The bill modifies the deficit reduction contribution requirements in a number of ways in order to close the statutory loopholes that employers have exploited. First, the bill improves the coordination of the deficit reduction contribution and the regular minimum funding determinations. Under current law, the impact of actuarial gains and reductions in liability due to changes in actuarial assumptions (or in the other direction, the impact of actuarial losses and increases in liability due to changes in actuarial assumptions) is recognized twice in determining the deficit reduction contribution. The bill would end this double counting and effectively require the employer to make contributions based on the greater of the regular minimum funding requirement and a free-standing deficit reduction contribution.

Secondly, the bill mandates the use of certain standard assumptions for purposes of determining the amount of a pension plan's underfunding and the amount of the resulting deficit reduction contribution. The 1987 rules required the use of an interest rate within the corridor of 90-110% of the interest rate on 30-year Treasury bonds (averaged over the past four years) for this purpose. However, the 1987 rules did not require the use of any particular mortality table for this purpose. As a result, employers with poorly funded pension plans have had an incentive to use interest rates at the high end of the permitted corridor and to assume that their employees have higher than standard mortality (i.e., lower life expectancy). The use of high interest rates and mortality assumptions minimizes the amount of the apparent pension liability, reducing the required contributions.

The Retirement Protection Act would mandate that the interest rate used for purposes of determining the deficit reduction contribution be no greater than 100% of the 30-year Treasury rates (7.27% for plan years beginning in May 1994) and would require the use of the group annuity mortality table currently adopted by the insurance commissioners of at least 26 States. As the Members of this Committee know, this is the same mortality table specified in Internal Revenue Code Section 807(d)(5), relating to the determination of reserves for life insurance companies.

The bill would also tighten the deficit reduction contribution formula that determines the speed of funding new plan liabilities under the 1987 amendments. The new formula would require plans to fund substantially all of the increases in liability in the first 5-7 years after the amendment. Under current law, the liability can be funded at a rate that corresponds to 12 year amortization. This change will ensure that increases in liability from benefit changes will be funded over a period that more closely tracks the five-year phase-in of PBGC's guaranty.

Finally, in developing the proposal we attempted to anticipate how employers might try to avoid making deficit reduction contributions in the future, and then we closed these potential loopholes in advance. For example, the bill provides that employers sponsoring significantly underfunded pension plans (i.e., over $50 million of underfunding in the controlled group) would be required to obtain advance Internal Revenue Service approval of changes in actuarial assumptions that significantly decrease their current liability. Thus, while these employers will be permitted to reflect their individual situations in establishing retirement age assumptions, for example, they would need to justify to the I.R.S. any changes in those assumptions from prior assumptions. This requirement, in conjunction with the use of a specified mortality table and a lower cap on the interest rate, will help ensure that employers cannot manipulate the plan's actuarial assumptions to avoid their responsibility to fund their benefit promises.

The Administration recognized that an abrupt increase in the minimum funding requirements may be overly burdensome for employers in the short term. Consequently, the bill includes transition rules that give short-term relief to employers, while still providing for steady, gradual improvement in plan funding.

Quarterly contributions and nondeductible contributions

As part of the process of reviewing the funding rules, the task force identified two other related provisions that we believed could be improved by narrowing the scope of their application: the quarterly contribution requirements and the excise tax on nondeductible contributions. I will discuss each of these provisions in turn.

The requirement that an employer make quarterly contributions to its pension plan (modeled on the payment of estimated income tax) was added in 1987 and provides an early warning signal for the PBGC that an employer may be unable to meet the minimum funding requirements for a year. In the absence of the quarterly contribution requirement, such an employer could wait until 20 1/2 months after the beginning of the plan year before coming to grips with its financial responsibility to the plan. By requiring quarterly contributions, and notice to the PBGC and plan participants of an employer's failure to pay these installments, the funding rules force the employer to face up to its problems earlier in the year.

The quarterly contribution rules also are beneficial in the situation where the employer's financial problems first appear later in the plan year. In this case, if the employer has been making the required quarterly installments a plan will have been at least partially funded during the portion of the year prior to the development of the financial problems.

On the other hand, the requirement that an employer contribute four times a year, together with the need to have an actuary determine the minimum installments, adds an administrative burden for an employer. If a plan currently has assets in excess of its current liability, the Task Force concluded that the administrative burden on employers outweighs the benefit of quarterly installments to the employees and the Government. This is particularly true for plans near the full funding limit, where an employer that must make a quarterly contribution before the actuarial valuation is complete may ultimately discover that the contribution is nondeductible. For these reasons, the bill would eliminate the quarterly contribution requirement for plans that had assets in excess of current liability in the previous year.

The purpose of the excise tax on nondeductible contributions is to discourage employers from making these contributions in order to transfer assets into the plan's tax-exempt trust. In the two situations described in the bill, we believe that the employer's nondeductible contributions are not motivated by a desire to obtain excessive tax shelter, but are primarily a result of non-tax considerations, and should not generate an excise tax. These situations arise where: 1) an employer with 100 or fewer employees contributes an amount to its pension plan to fund the current liability and then terminates the plan, or 2) an employer sponsoring a defined benefit plan also sponsors a section 401(k) plan with overlapping coverage that is receiving employee salary deferrals or employer matching contributions totaling less than 6 % of compensation. In the former case, a small employer may be required to make the nondeductible contributions as a condition of plan termination. The latter case deals with the anomalous situation where an employer wishes to make additional contributions in order to decrease plan underfunding, but is now discouraged from doing so because employees are electing to make salary deferrals in a 401(k) plan that count against the employer's aggregate qualified plan deduction limits.

Actuarial equivalence

The bill makes minor changes to the actuarial equivalence rules used for purposes of converting annuities to nonannuity distributions, primarily lump sums, under sections 417(e) (restrictions on cash-outs) and 415(b) (maximum permitted benefits). Under current law, the actuarial equivalence that can be used for these purposes is based on two different interest rates (one of which is tied to the PBGC interest rates used to value terminated plans, the other of which can be as low as 5%) and no specified mortality table. The bill would specify a single interest rate and mortality table for both purposes. Eliminating the current cross-reference to the PBGC interest rates will also enable the PBGC to adjust the interest rate it uses for other purposes in the future without also affecting the benefits of participants in all plans.

Nondiscrimination and Cross-testing

As a condition of tax-favored treatment, section 401(a)(4) requires that retirement plans demonstrate that the contributions or benefits provided under the plan do not discriminate in favor of highly compensated employees. Under current law, this demonstration can be on the basis of either contributions or benefits, without regard to whether the plan is a defined contribution plan or a defined benefit plan.

Section 408 of the bill would generally prohibit the practice known as "cross-testing" a qualified defined contribution plan. The bill would generally require defined contribution plans, and aggregations of defined contribution and defined benefit plans, to demonstrate nondiscrimination on the basis of actual plan contributions, as opposed to projected benefits at retirement.

Cross-testing a defined contribution plan is needed when plans provide different allocations, as a percentage of compensation, to different employees. If the employees receiving larger allocations are older than the other employees, the difference may be justified by looking at the equivalent benefits those allocations are projected to generate. While some argue that cross-tested defined contribution plans merely make explicit the age-bias that is implicitly found in traditional defined benefit plans, there are significant differences between these types of plans. For example, the amount of benefit an employee receives from a defined benefit plan does not depend on the investment return in the fund; and the delivery of that benefit is further guaranteed by the PBGC. However, employees in a cross-tested defined contribution plan bear investment risk. An employee will receive the hypothetical benefit that is used to satisfy the nondiscrimination rules only if the plan's investment return and the conversion of the employee's account balance into retirement income actually match the assumptions used in the projection.

Creative practitioners have recently gone further than merely mimicking the distributional aspects of defined benefit plans by relating allocations to age. They have developed aggressive plan designs that provide significantly higher contributions for one class of employees (such as the owners of a business) than for the rest of the employees. If most of the favored class is older than the other employees, as is often the case in these situations, cross-testing may be used to satisfy the nondiscrimination rules in an inappropriate way.

The potential for highly-compensated employees receiving substantial benefits in cross-tested plans has received considerable press attention. For example, discussions of cross-testing have made their way into the Wall Street Journal, Pension World and Financial Planning magazine. These articles emphasize the potential for highly-compensated employees to maximize benefits for themselves while minimizing contributions for rank-and-file workers. For example, a June 1993 Financial Planning article is headlined "Skewed retirement plans help owners at workers' expense." The Wall Street Journal article leads with the question "Is it a retirement plan , or a tax shelter ?" An article in the March 1994 Journal of the American Society of CLU and ChFC contains an illustration of an employer using cross-testing to reduce the allocations for rank-and-file workers from 15% of pay to 3% of pay, while the owner continues to receive an allocation of $30,000. I have attached copies of a small collection of these articles for the record.

The Administration is concerned that such practices and the increasing attention that they have been receiving, can

- reduce the share of tax-subsidized retirement funds that benefit rank-and-file workers

- encourage employers to abandon the defined benefit system, thus eroding the PBGC premium base

- discourage the hiring of older rank-and-file workers (to the extent that the Age Discriminiation in Employment Act doesn't protect these workers), and

- generally have a detrimental impact on the public's perception of the integrity of our tax-favored retirement system.

For these reasons, the Administration continues to support restricting cross-testing.

Let me emphasize that this proposal was developed because some employers are manipulating the cross-testing rules in order to obtain a tax subsidy for retirement plans that provide excessive contributions to highly compensated employees, at the expense of rank-and-file workers. Since the Administration proposed limiting cross-testing, we have heard from and met with a number of interested groups. The purpose of our meetings with these representatives has been to identify the types of plans that provide meaningful benefits to rank-and-file workers, in contrast to the abusive cases. We have received some useful suggestions in this regard.

We hope that we can work with the Committee in tailoring the proposal to target the troublesome cases. In this process, however, our guiding principle remains -- the abusive practices must stop.

Rounding rules for indexed values

Many of the statutory dollar thresholds and limits used in the qualified plan area are indexed to changes in the cost of living. For example, the annual limit on contributions under section 401(k) is $9,240 in 1994 (increased from $8,994 in 1993). The bill would change the indexing rules so that the indexed values for a year are available before the start of the year and would provide for rounding of these indexed values to the next lowest multiple of $500 or $5,000. The earlier determination of the indexed values and the use of rounded values would simplify administration by employers and communication with employees, because the indexed values would not necessarily change each year. The proposal also has the effect of raising revenue to offset some costs of the bill. As the Members of the Committee know, a similar rounding rule was adopted in last year's reconciliation bill for the compensation limit of section 401(a)(17).

Conclusion

In conclusion, I would like to emphasize that now is the time to act, while the PBGC's problems are still manageable. Although the PBGC has assumed significant liabilities over the past ten years from the termination of underfunded plans, PBGC's responsibility for benefit payments under those plans is spread out over a number of years. Enactment of the Retirement Protection Act of 1993 will require employers sponsoring defined benefit plans to do a better job of living up to their commitments by adequately funding their plans, thereby reducing PBGC's potential liability.

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TREASURY NEWS
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FOR IMMEDIATE RELEASE
Text as prepared for delivery
June 15, 1994

Remarks of Treasury Secretary Lloyd Bentsen
Eisenhower World Affairs Institute Awards Ceremony

LB-890

FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
June 15, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
EISENHOWER AWARDS DINNER

I want to thank the Trustees of the Eisenhower World Affairs Institute and Gettysburg College for this honor.

Don mentioned I've been at this public service business for a few years now. I've always been guided by just one principle -- make a difference, make lives better. It is truly moving for me to be honored in so public a way for doing what I considered to be the right thing to do, the moral thing to do. Thank you.

I'm also honored because if you notice it's the first time anyone who didn't wear a general's stars has received this honor. I was just a major on active duty, so I'm glad to see you're both dipping down into the ranks and going out to the civilian world this year.

I don't keep a lot of photographs on my wall at the office, those grip and grin pictures I think they call them, but I do have a few. What I have are pictures of most of the presidents I've had the privilege to serve with. I may be a Democrat, but I have Ike up on the wall too.

Every picture has its story, so let me tell you about this one.

In 1951 I was over in Europe on an important mission. It wasn't trade, and it wasn't the Cold War, but it was important for the country. You see, I went to talk to Ike about running for president. Well, I had lunch with Eisenhower at Versailles, and B.A. had lunch with Tony Biddle while I was talking with Ike.

I made my case, explained why I thought he'd make a good president, how he should take advantage of his popularity, how his ability to manage something as complex as D-Day was exactly the kind of talent we needed at the White House. I also told him he ought to be running as a Democrat. I pressed him and I pressed him, made the best case I could, but Ike was noncommittal. I can remember it to this day. He had a slight grin when I was plugging the presidency.

Well, I walked out and told B.A. that I won half the argument. He's running, but not as a Democrat.

Later on, after he was in the White House, I asked him one evening why he'd chosen to fight for the nomination, to take on Taft when he could have had the Democratic nomination for the asking. What he said to me has stuck to this day. He told me that if he fought for the nomination on his own, he would not feel as obligated as he would if he'd just walked in and had it given to him by the Democratic Convention. That tells you a lot about the man, the kind of spirit and willingness to take a risk that epitomizes Dwight Eisenhower.

I came back a week ago from our D-Day ceremonies over in England and France. If you look at D-Day as something more than a successful military exercise, it becomes clear that it's a historic turning point in the history of our nation. That's what I want to talk about, what else it represents, and how the lessons of that apply even more so today.

The United States went into this war with an economy making its way out of depression. Large portions of our industrial capacity lay idle. Unemployment in 1939 was over 17 percent. In 1940, it wasn't much better. In 1939, our Navy was just 235 ships. Our Army Air Force bought 800 aircraft in that year.

June 1944. What was different? We faced a challenge. It took the unity that comes from war to make one of the most significant economic transitions ever. Everyone pulled together -- every family, every farm and every factory.

In a very real sense, on June 6, 1944, the United States in a single act became a superpower. And it was the power of the U.S. economy that made it possible. From having nearly one in five unemployed and factories idle, we were producing a ship a day, 250 planes a day. We had 1.5 million soldiers in England -- one person in 30 in Great Britain was an American. We had tens of thousands of tanks, and trucks, and planes, ships and assault craft ready to strike.

Ten years after "brother can you spare a dime?" the course of our history -- and world history -- had changed.

And ever since, despite whatever point we or anyone else has been in the business cycle, one thing has been clear -- we are an economic superpower. And let me tell you, if you think you can be a military and political superpower without also being an economic superpower, you just take a look at Russia. It may have taken 45 years for the economics of this to play out, but it was as much the strength and attractiveness of our economy, our free enterprise system that rewards risk, as it was our military and political clout, that brought the Cold War to an end.

That was one era when it took economic strength to prevail, and to grow -- because it is growth that allows you to sustain your strength. I know Ike understood that. I went back and started rereading his speeches, and there are economic themes there that are just as true today -- perhaps even more so. Such as the importance of trade to link increasingly interdependent economies in the world, and the contribution to peace that prosperity can make.

I was struck by two thoughts, and if I might, I'd like to read them.

When Ike was sworn in, in his first inaugural address, he said, "No free people can long cling to any privilege or enjoy any safety in economic solitude. For all our own material might, even we need markets in the world for the surpluses of our farms and factories. Equally, we need for these same farms and factories vital materials and products of distant lands. This basic law of interdependence, so manifest in the commerce of peace, applies with thousand-fold intensity in the event of war."

Clearly, Dwight Eisenhower knew the critical importance of opening markets to sustain economic growth. Let me quote just one more line: "Recognizing economic health as an indispensable basis of military strength and the free world's peace, we shall strive to foster everywhere, and to practice ourselves, policies that encourage productivity and profitable trade. For the impoverishment of any single people in the world means danger to the well-being of all other peoples."

What was true in Ike's day about the need for economic strength is even more constant today. Is it important now to have a strong military? Of course. The same is true with political clout. But we still must have that third leg of the equation -- economic leadership -- to be a true superpower, for the first two can exist with certainty only in the presence of the third.

Maintaining our economic leadership will hinge on our ability to change and adapt. That is our challenge, and that is our responsibility. To fail to adapt is to fall behind, to cede leadership to those more clever, more willing to take risks.

We have made the commitment to change that will provide the foundation for U.S. economic leadership for the coming decades. I want to discuss that with you just briefly.

No nation can be a leader abroad unless it is on stable footing at home. We have ensured that. I am not going to go into chapter and verse, just the highlights.

I haven't seen the fundamentals of our economy look this good in 20 years. We are on the way to freeing up $500 billion in investment capital with our deficit reduction. In fact, the deficit is coming down faster than we anticipated. Business investment is rising -- eight straight quarters at double-digit rates. Interest rates are reasonable. Inflation is not a threat. The economy is on sound footing, growing steadily.

Doing that has produced enormous political capital for us abroad. That's the first step.

The second thing we've done to adapt is recognize the critical importance in international affairs of economic matters. The role prosperity can play in peace and in extending the benefits we have enjoyed to others demands that we look as much at our economic relations abroad as it does at our political relations abroad.

I'll be at the G-7 summit in Naples next month. The Treasury Secretary is now a regular participant in summits, and that's as it should be.

Third, we recognize that the nature of our economy is changing, and we must adapt. Years ago, it used to be that when there were layoffs, the people were called back to work when the economy picked up. That isn't always the case now. The structure of our economy is changing. Jobs are disappearing to technology. Some have gone overseas. Corporate America has downsized, probably permanently. There's outsourcing, more service-oriented jobs. You can look at all these changes as a loss, or as an opportunity. I chose to see it as an opportunity for us to seize and exploit.

What it takes is continuous education, re-training, a recognition that new skills are necessary for a new era. I'm a fellow who grew up doing long division with a pencil and a scrap of paper. I have a computer on my desk now. I have one at home. And I use them. They're not window dressing. Advances in technology must be mastered and harnessed, and that takes education -- all the time. Education is a lifetime undertaking. We made that point at the G-7 jobs conference in Detroit earlier this year.

Change, adapt, learn to be more efficient and more productive. That's what we're after. Job-training, a better, more efficient infrastructure, taking the kinks out of the economy, all of them innovative ways to help maintain our global economic leadership.

Finally, we are using the power of the marketplace -- the open marketplace -- to strengthen both our economy and those of others. We gain two-fold from that. We increase our standard of living. And as we strengthen economies elsewhere, we encourage greater political and economic freedoms, and respect for human dignity. It is no accident that most of the world's strongest economies are democracies, and that they are at peace. If you recall those lines I mentioned earlier, Ike truly understood the power of prosperity as a force for peace -- and we do too.

We are aggressively pursuing greater trade opportunities -- from the Framework talks with Japan, to the North American Free Trade Agreement, and the Uruguay Round of the GATT. And beyond that, we have turned to the organization known as APEC -- the Asia-Pacific Economic Cooperation forum -- because of the opportunity it holds for contributing to global economic integration. There's exploding growth there, and the potential of that region of the world is tremendous -- 2 billion people who want our products, $1 trillion in infrastructure work over the next decade.

In addition, after nearly a half century of an adversarial relationship, we're leading the way in assisting the transformation of the once command economies of communism into the free market system. And in this 50th anniversary year of the Bretton Woods institutions, I am proud to say we're meeting our commitments. These banks are so critical to encouraging the kind of growth in the developing world that offers the opportunity for prosperity to others.

Finally, as we move into this new economic era, we are working closely with our allies in the industrialized world to coordinate policies that are now beginning to restore growth in these economies.

Fifty years ago, the allied forces and Dwight Eisenhower -- backed by the power of the American economy -- forever changed the course of history. Today, we must again harness and direct our economic strength to be certain that in the coming years we improve the American standard of living, retain our position of leadership, and offer the opportunity of prosperity to others. That is our challenge. That is our responsibility. And that is what we are doing.

Again, thank you very much for the honor you have given me this evening. Like Ike, there are two things I love -- my family, and my country.

Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR RELEASE AT 2:30 P.M.
June 15, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES
TOTALING $28,000 MILLION

The Treasury will auction $17,000 million of 2-year notes and $11,000 million of 5-year notes to refund $23,273 million of publicly-held securities maturing June 30, 1994, and to raise about $4,725 million new cash.

In addition to the public holdings, Federal Reserve Banks hold $3,192 million of the maturing securities for their own accounts, which may be refunded by issuing additional amounts of the new securities.

The maturing securities held by the public include $817 million held by Federal Reserve Banks as agents for foreign and international monetary authorities. Amounts bid for these accounts by Federal Reserve Banks will be added to the offering.

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

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

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

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Attachment

LB-891

HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF
2-YEAR AND 5-YEAR NOTES TO BE ISSUED JUNE 30, 1994

June 15, 1994

<u>Offering Amount</u>	$17,000 million	$11,000 million
<u>Description of Offering</u>:		
Term and type of security	2-year notes	5-year notes
Series	AH-1996	P-1999
CUSIP number	912827 Q3 9	912827 Q4 7
Auction date	June 21, 1994	June 22, 1994
Issue date	June 30, 1994	June 30, 1994
Dated date	June 30, 1994	June 30, 1994
Maturity date	June 30, 1996	June 30, 1999
Interest rate	Determined based on the highest accepted bid	Determined based on the highest accepted bid
Yield	Determined at auction	Determined at auction
Interest payment dates.	December 31 and June 30	December 31 and June 30
Minimum bid amount	$5,000	$1,000
Multiples	$1,000	$1,000
Accrued interest payable by investor	None	None
Premium or discount	Determined at auction	Determined at auction

<u>The following rules apply to all securities mentioned above</u>:

<u>Submission of Bids</u>:

Noncompetitive bids . . . Accepted in full up to $5,000,000 at the highest accepted yield

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

<u>Maximum Recognized Bid at a Single Yield</u> . . . 35% of public offering

<u>Maximum Award</u> . . . . 35% of public offering

<u>Receipt of Tenders</u>:

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

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

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

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FOR IMMEDIATE RELEASE
June 15, 1994

CONTACT: Jon Murchinson
(202) 622-2960

BENTSEN TO ATTEND OVERSIGHT BOARD MEETING

Treasury Secretary Lloyd Bentsen will attend the Thrift Depositor Protection Oversight Board open meeting on Thursday, June 16. The meeting will be held at 3 p.m. at the Federal Deposit Insurance Corporation, 550 17th Street NW, sixth floor.

The Oversight Board reviews overall strategies, policies and goals of the Resolution Trust Corporation (RTC) and approves RTC financial plans, budgets and periodic financing requests prior to implementation.

The Board's members include the Secretary of the Treasury, who serves as chairman; the Chairman of the Federal Reserve Board; the Chief Executive Officer of the RTC; the Chairman of the FDIC; the Director of the Office of Thrift Supervision, and two independent members from the private sector.

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LB-892

DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
June 16, 1994

Contact: Hamilton Dix
(202) 622-2960

BENTSEN SAYS U.S. TO HEAD ANTI-MONEY LAUNDERING EFFORT

Treasury Secretary Lloyd Bentsen announced Thursday that the United States was elected to chair the Financial Action Task Force (FATF) on Money Laundering for the year beginning July 1, 1995. Bentsen said he has asked Ronald K. Noble, assistant secretary of the Treasury for enforcement, to serve as president of the organization.

"The best way to hit criminals where it hurts is to hit them in the wallet, and an extensive program of international cooperation, especially through this task force, can do just that, Bentsen said. This organization is the most effective voice on this issue. I'm pleased that the United States has been chosen to lead the group next year.

"Money laundering is more than a law enforcement problem. Money laundering is of major concern to the Department of the Treasury and the other finance ministries because of its potential to corrupt and destabilize individual financial institutions and the financial system generally."

Noble, who heads the U.S. delegation to FATF, will succeed Leo Verwoerd of the Netherlands Ministry of Finance. The United States was chosen as the next leader of FATF at a meeting Thursday in Paris.

U.S. policy, as carried out by the departments of Treasury, State and Justice through FATF, is to create a global network of nations committed to moving against money launderers by strengthening anti-money laundering laws and increasing cooperative efforts to deny havens to money launderers.

The FATF Thursday also issued its final report for the 1993-1994 session in which members agreed to continue the work of this task force through 1999. The organization will concentrate on three major areas of drug and non-drug money laundering -- studying methods and countermeasures, evaluating the effectiveness of the anti-laundering measures of member nations and encouraging non-member nations to act against money laundering.

(more)

LB-893

The FATF was created at the G-7 Economic Summit in 1989 to improve international cooperation against money laundering. It is composed of 26 financial center countries, the European Union and the Gulf Cooperation Council.

The Financial Action Task Force has worked for the last five years to bring about worldwide action against money laundering. Among its major accomplishments was the issuance of 40 recommendations for domestic and international anti-money laundering measures for law enforcement, financial institutions and their supervisors.

Key recommendations include: suggesting that money laundering be criminalized, that financial institutions be required to report suspicious activity, and enhancing formal and informal international cooperation at all stages of money laundering cases. Each participant in FATF has agreed to implement the recommendations and have their progress evaluated by other task force members.

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
June 16, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
AMERICAN REHABILITATION ASSOCIATION
BALTIMORE, MARYLAND

Thank you, David Daugherty, for the nice words, and thanks especially for your support. We can use it.

I'll tell you when I first learned the importance of rehabilitation: during World War II.

I was reminded of that earlier this month. I was with the President at the 50th anniversary of D-Day. What a moving experience.

I came out of the war with no injuries, knock on wood. But some very successful Americans -- like Senator Inouye, Senator Dole -- wouldn't be where they are today, had it not been for rehabilitation.

I've seen your numbers. You help return 350,000 people to work each year. You speed recovery of stroke patients.

You treat victims disabled by gunshots and knife wounds. I'm not here to plug the crime bill, but we need that passed, too. Many of those injuries don't have to happen in the first place.

When you give people their lives' back, you also move them from tax users to taxpayers. As Treasury Secretary, I like that -- a lot.

They showed me the numbers you came up with. Rehabilitated people returning to work represent a savings of $1-2 billion, which otherwise would be paid by Medicaid and disability insurance. And you estimate that they make a significant contribution to our tax base -- about $700 million.

LB-894

But there's one serious problem with your services. They're not available to every American. That's what health care reform is all about.

We want to work on a bi-partisan basis to guarantee private coverage.

No one is arguing with that goal.

No one is arguing about the need for insurance reform.

No one is arguing about portability, so people with pre-existing conditions can change jobs. There is no way to get a bill through that doesn't address these issues, not when an estimated 81 million Americans have pre-existing health conditions.

No one is arguing about open enrollments, so consumers can change insurers. I wouldn't want to be a member of Congress and have to tell my constituents: "I have it, but you can't."

No one is arguing about helping smaller companies to pool risks, or the need to make it possible for them to afford coverage.

We agree on much more than we disagree on. Even on the sticky issue -- financing -- there's a surprising amount of agreement.

For example, it's generally believed financing will be accomplished by slowing the rate of growth in both public and private health care spending, and adding new revenues, such as a tobacco tax.

One of the debates on the Hill now concerns phasing things in. Of course you phase things in. In your profession, you wouldn't take a 20-year old who breaks his back in a car accident and have him running a marathon the day he gets his body cast off and is out of traction.

This is no different. From the beginning -- from day one -- this President has had a phase-in plan. To phase in guaranteed coverage by 1998, and to have a fully operational program by the year 2004.

He's not married to those exact dates. If that doesn't work for a majority of lawmakers, we change the wedding date -- but let's not wait too long.

Having been in the Senate, having seen how these things work, I know there are adjustments to all legislation. Congress isn't changing one-seventh of our economy without being careful on this one.

But I see them picking up speed.

Two House subcommittees have reported out their health reform bills. The full House, Ways, and Means Committee hopes to complete action by July 4th, and I'll be visiting with Chairman Gibbons on this.

In the Senate, Chairman Kennedy, of Labor and Human Resources, reported out his bill. In my old venue, Finance, the President, the Vice President, and I met with Chairman Moynihan and Senator Packwood on Tuesday.

They're not ready to take a vote. There isn't a bi-partisan majority for any plan -- yet. There are many good ideas out there, and I have full confidence we will work this out. It's amazing what committees can accomplish with the influence of an election four months away!

As Finance Chairman, I never expected to get comprehensive health care through the Senate. Without the strong leadership of a President, those types of changes just aren't possible. We had to move forward when and where we could.

For example, one year, we extended Medicaid to make prenatal care available to first-time pregnant mothers in low-income families; another year we let states have the option to expand coverage; other years, we extended Medicaid to children whose family incomes were low enough.

We helped millions of kids, and we saved some money.

I've seen numbers -- for every $1 spent in pre-natal care, we save $3.38 in the first year of a child's life.

By the way, I've seen your rehabilitation numbers. You estimate that for each dollar spent on rehabilitation, $30 is saved. As with pre-natal care, the earlier it begins, the better the results. You know better than I that stroke patients who receive rehabilitation are more likely to be discharged to home care, than a nursing home.

But from all our efforts in the Senate, we didn't fix problems with the overall system -- not when Children's Medical Center of Dallas has $47 million a year in uncompensated care. And the children's hospital I visited in Salt Lake City has $17 million. And the one I visited last month in Phoenix has $7 million.

Or go to an emergency room in Houston, and you'll see we didn't help every child. Kids come in there with serious illnesses because their parents have no insurance and they never took them to a doctor.

In the 1980s, Congress and three presidents worked to contain costs in Medicare and Medicaid, only to find tightening these payments caused doctors and hospitals to increase rates for others.

It's called cost shifting, and businesses and families pay for that.

Last year, the New York Assembly enacted reforms to reduce the average cost of insurance for workers in small firms. So what happened? Young healthy New Yorkers with bargain-priced insurance saw their premiums increase dramatically; and today, the number of insured is down.

Those are the problems with legislating on a piecemeal basis like we've been doing.

Look -- the easiest thing to do is to invent a program, the harder thing is to pass it in Congress, but the hardest of all is to make it work after it's been enacted.

Ask Lawton Chiles of Florida. When he was a Senator, he'd say to reform health care it was necessary first to control the cost of providing care.

Then he became a Governor, restructured Florida's health care system, saw the results, and the Governor now says to control costs we first have to achieve universal coverage.

He's right. What this President is offering is a phased-in approach. But with a difference. At the end of the road is a guarantee of private insurance for every American.

Say we didn't have guaranteed coverage. Say all we do is change some insurance rules so those with pre-existing conditions are covered. You know what would happen? It would push people out of the system because they'd see a dramatic rise in costs.

And who would pay their costs when they become sick? The taxpayer. You and I would, because we have insurance.

Say we didn't have guaranteed coverage. Say all we do is slap entitlement caps on Medicare and Medicaid. You know what would happen? Costs to businesses providing insurance would rise because by cutting Medicare and Medicaid payment rates, we're just cost shifting. We're just making insurance more expensive for employers and families and forcing them to reduce or drop their coverage altogether.

Let me give you some numbers.

One dollar in six of federal spending is for health care. It could rise to one in five by the year 2000 if we do nothing.

We're spending 14 percent of our GDP on health care. Japan and Germany are under 10 percent. If we do nothing, we'll be at almost 20 percent by the end of the decade, and no one else will be over 10 percent. And the really troubling part is that every one of those countries paying less than us covers all of their citizens, and we have 38 million without insurance.

Somebody told me: "Mr. Secretary, you're always quoting GDP. Mr. and Mrs. Taxpayer don't see how GDP affects them."

So let me put it this way: if our percent of GDP spent on health care had stayed flat -- if it was the same percent as it was 20 years ago -- the average American would be seeing $1,000 more per year in cash wages. $1,000 more in the pocket.

In recent years, health care costs have risen two-and-a-half times faster than the average consumer product. In 1984, if I paid $100 for a basket of groceries and $100 for health insurance, today the same groceries cost me $140 and the same health insurance costs me about $200.

Let me tell you the Treasury Secretary's bottom line. This bill will be paid for. It's not going to add to our deficit. It will drive it down, or it won't pass.

Earlier this year, I was having dinner at the White House with Senator Dole. And he said what we need is an incremental approach -- the Bentsen plan.

I sponsored a bill, which passed the Senate twice, to make improvements insofar as insurance, portability, covering pre-existing conditions, adding preventive care, and improving employer incentives.

And the Vice President was there, and he said, no Senator, what we need is the Nixon plan, which was much more sweeping than mine and included an employer contribution.

Do you know which President said we needed to pass health care reform because we face a "massive crisis" since costs were up 170 percent in 10 years? Do you know which President said that we need to mandate that employers provide basic health insurance coverage?

A fellow named Richard Nixon. He said that my very first year in the Senate. 1971.

In 1971, we had a war going on. We were just coming out of a recession. We had a President who wasn't working fulltime on health care.

I don't remember him going out, and giving speeches, and holding town halls, and visiting hospitals, and receiving one million letters from Americans with health care stories -- like this President has.

This President, this First Lady, want nothing more than to pass health reform this year.

We have a strong economy now. We have businesses and labor behind us. You've added your support. You deserve a tremendous amount of credit for your willingness to step in.

We have the best shot that we've had in many years.

Do me a favor -- go out and sell the idea to your congressmen and senators, will you?

Thank you very much.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
June 16, 1994

BENTSEN SEES HEALTH CARE PLAN ADVANCING

BALTIMORE -- Treasury Secretary Lloyd Bentsen said Thursday that health care reform legislation is picking up steam on Capitol Hill.

"Having been in the Senate, having seen how these things work, I know there are adjustments to all legislation," Bentsen said in remarks prepared for delivery to the American Rehabilitation Association, a non-profit educational organization.

"Congress isn't changing one-seventh of our economy without being careful on this one. But I see them picking up speed," said Bentsen, a former chairman of the Senate Finance Committee.

Commenting on recent House and Senate committee action on health reform legislation, Bentsen said: "They're not ready to take a vote. There isn't a bipartisan majority for any plan -- yet." Still, "there are many good ideas out there, and I have full confidence we will work this out," he said.

The Secretary said the administration wants to work on a bi-partisan basis to guarantee private health insurance coverage for "No one is arguing with that goal. No one is arguing about the need for insurance reform. No one is arguing about portability, so people with pre-existing conditions can change jobs. There is no way to get a bill through that doesn't address these issues -- not when an estimated 81 million Americans have pre-existing health conditions."

In fact, Bentsen said lawmakers and the administration agree on much more than they disagree on, including how the legislation would be phased in.

President Clinton, he said, has always wanted to gradually put any reforms in place. "From the beginning this President has had a phase-in plan. To phase in guaranteed coverage by 1998, and to have a fully operational program by the year 2004," the Secretary said. "The President is not married to those exact dates. If that doesn't

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work for a majority of lawmakers, we change the wedding date -- but let's not wait too long," he added.

Bentsen thanked the rehabilitation association for its endorsement of health care reform. "You deserve a tremendous amount of credit for your willingness to step in," he told the some 500 people attending a conference sponsored by the group.

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FOR IMMEDIATE RELEASE
June 16, 1994

CONTACT: Jon Murchinson
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AGREEMENT REACHED WITH CONSUMER GROUPS ON INTERSTATE BANKING

The Treasury Department and the Office of the Comptroller of the Currency, in consultation with Congress and representatives of the banking industry, reached agreement Thursday with consumer groups regarding the application of state laws to national bank branches.

"The agreement on the applicable law provisions of interstate banking and branching legislation is a significant and very positive step toward producing a landmark banking bill for the President's signature," Treasury Secretary Lloyd Bentsen said. "This agreement, which fully incorporates and protects the primary concerns of the Administration and consumers, reflects the Administration's focused, deliberate and incremental approach to banking legislation that I articulated last year."

This was an important issue that needed to be resolved in order for Senate and House conferees to produce a conference report on interstate banking and branching.

-more-

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Under the agreement, state laws concerning community reinvestment, consumer protection, fair lending and the establishment of intrastate branches would generally apply to branches of national banks as they apply to branches of state banks. But state laws would not apply when preempted by Federal law or if the Comptroller of the Currency (OCC) determines that they discriminate against national banks.

The agreement also establishes a new public notice and comment process for when OCC is considering whether Federal law preempts state laws. The process would also apply to determinations on whether state laws discriminate against national banks. This agreement explicitly preserves judicially established principles of Federal preemption and the preemption authority of the Comptroller.

"The starting point for the Administration on this issue has consistently been the preservation of traditional preemption analysis and specifically that state law would apply unless preempted by Federal law," said Bentsen. "The notice and comment mechanism created by this agreement gives consumers and other interested parties an appropriate opportunity to weigh in when the regulators are considering these issues."

"I appreciate the efforts of the consumer groups we have worked with in reaching this agreement: Consumers Union, Consumer Federation of America, Public Citizen, and U.S. Public Interest Research Group."

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FOR IMMEDIATE RELEASE
Text as prepared for delivery
June 17, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
FREE TRADE ALLIANCE/CITY OF SAN ANTONIO
SAN ANTONIO, TEXAS

Good morning. It's good to be back in Texas. I want to thank the Free Trade Alliance and Mayor Nelson Wolff for organizing today's event and bringing together so many friends from both sides of the border.

This is an important day throughout the border region, and for San Antonio in particular. We fought hard to get NAFTA, and the people of San Antonio made an important contribution, showed Washington why it was important. And I was proud to be an advocate of locating the bank here. NAFTA and the North American Development Bank are going to be good for San Antonio, good for Texas, and good for the United States and Mexico.

We're starting a process here today that will make lives better from Brownsville and Matamoros to Ciudad Juarez and El Paso, on to San Diego and Tijuana.

I'm delighted to be here with my friend and counterpart, Pedro Aspe, to help launch the NADBank. This institution will finance environmental infrastructure projects along the border and support community adjustment and investment to further the purposes of NAFTA.

And what makes this even more significant is that we're embarking on a partnership -- a partnership to clean up the environment along our shared border, particularly in the areas of wastewater treatment, drinking water, and municipal solid waste.

There are three partnerships at work here, separately and together. The first is the partnership between the governments of the United States and Mexico, the NADBank and the Border Environment Cooperation Commission, and communities on each side of the border to build the projects that will clean up our environment.

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The second is the partnership between the bank and the City of San Antonio, which has so graciously provided a home for the bank.

And the third is the partnership between the public and private sectors.

Together, in partnership, our efforts to clean up the border will provide opportunities and challenges to businesses in both our countries. Environmental infrastructure projects will require engineers, environmental specialists, a wide range of suppliers and financial institutions, just to name a few.

In addition, I envision a marriage of private lending and equity with government funds to hold down government costs and encourage private sector involvement. The NADBank is uniquely suited to help generate private sector financing through the use of partial guarantees. One of the important aspects of both the Commission and the Bank is that they are designed to use the creativity and ingenuity of the private sector.

I'd like to urge the private sector to work closely with communities and states on both sides of the border to develop these important projects.

Working together, we can get a very tough job done -- cleaning up the border so that people on both sides can lead more health, productive lives.

Thank you.

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FOR IMMEDIATE RELEASE
June 17, 1994

BENTSEN SAYS NADBANK TO HELP CLEAN BORDER ENVIRONMENT

SAN ANTONIO, Texas -- Treasury Secretary Lloyd Bentsen said Friday the North American Development Bank (NADBank) will make "an important contribution" to cleaning up environmental problems in states and communities along the U.S.-Mexico border.

Bentsen, speaking on the occasion of the first board meeting of the bank which was created in the legislation enacting the North American Free Trade Agreement, also said the NADBank is an innovative experiment in the area of international financial institutions. "Our agreement offers a new model for international cooperation at the local level to solve the problems that both our nations share," he said.

"The bank will be able to make an important contribution to solving these problems, but it cannot do it all," he said, adding that government grants, state and local sources, other development banks and the private sector also must become involved in helping states and communities address the three environmental areas with which the bank will involve itself.

The NADBank has a potential lending capacity of up to about $3 billion based on capital contributions from both the United States and Mexico. Bentsen noted that some estimates of the need for wastewater treatment, drinking water improvement, and municipal solid waste treatment range as high as $8 billion.

The NADBank, with three board members each from the United States and Mexico, will be headquartered in San Antonio. The United States and Mexico will each provide $225 million in capital over a four-year period. Some 90 percent of the NADBank's lending will be directed at environmental projects that have been approved by a local-oriented Border Environment Cooperation Commission (BECC). The remaining 10 percent of the lending capacity will be used to support community adjustment and investment related to NAFTA. The BECC is located in Ciudad Juarez, Mexico.

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FOR IMMEDIATE RELEASE
Text as prepared for delivery
June 17, 1994

Remarks of Treasury Secretary Lloyd Bentsen
Amarillo, Texas

LB-899

FOR IMMEDIATE RELEASE
Text as prepared for delivery
June 17, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
BILL SARPALIUS DINNER
AMARILLO, TEXAS

Thank you, Bill. It's great to be back in Texas. And it's great to see so many friends.

There are two things the last election made clear -- Americans wanted the budget deficit fixed and they wanted more jobs created.

We're delivering on both of those, and in a big way. And it's beginning to be felt all over the country.

First, we're on our way to removing $500 billion out of the federal deficit over five years. We're still running in the red, but nowhere near what it might have been. I used to say during the 1988 campaign that I could make everyone feel good if I could write $200 billion in hot checks every year. When I got to Treasury 16 months ago I found it was nearer $300 billion.

We're bringing the deficit down now. It was close. We won by just one vote, but it's made a significant difference in our economic health. We're really turned the economy around.

I want you to know insofar as reducing the deficit is concerned that so far this year we're running ahead of what we projected for the year. It looks like we're going to make even more headway than we anticipated. I'm the fellow who has to write the checks, and that's good news to me. It's good news to the American economy, too, because it's that much more money which is available for investment in the kinds of things that make ours the most productive economy around.

This year is going to be the first time since Harry Truman was president that we've had three straight years of declining deficits.

I've been going around lately saying it's a great time to be Treasury Secretary. Every time I see one of these good numbers I'm encouraged.

Look at some of the newest ones. Productivity is up. Business investment is up eight straight quarters in double digits. Earlier this week we got word that inflation for the first five months of the year was running at just 2.3 percent. Someone said that we haven't had inflation that low, except for one year, going back to 1965.

The Fed has bumped short-term interest rates back up a little bit. They see it as a pre-emptive strike on inflation. But if you look at what interest rates have been historically, we're in pretty good shape. I remember back when the prime was 19 percent and inflation was 13 percent. You can't do much business with rates like that.

Rising rates make you worry if they threaten to curb investment, but to this point we haven't seen that happen.

Growth in the economy is coming along steadily. We had 7 percent back at the end of last year, and 3 percent in the first quarter. My counterparts in Europe, or in Japan, would be delighted to have numbers like that.

I said that our other priority has been to create the conditions that allow our economy to create jobs.

We see all the headlines about this huge corporation or that huge corporation laying off, downsizing. And of course we see the market pick up at bad news, or go down when we have good news like growth. If I understood the markets, I'd been phoning in this speech from my yacht. But when we see these headlines, you don't see the ones about the welder being added here, or the engineer there, or the computer expert at another business. It's been adding up.

In fact, our economy has created nearly 3.5 million jobs. By the 14th month of this administration the economy had created more jobs than in the entire four years of the previous administration. Eight thousand jobs are being created in this country each and every day.

The unemployment rate is down nationally to 6 percent. Things are doing better than that around here. They tell me that unemployment was 4 percent in April, and that there are about 5,500 more jobs in Amarillo now than there were a year ago.

There's one bit of job news that seems to get lost these days. There are 100,000 less employees on the federal payroll now than there were in 1992. I said that at a meeting the other day and a voice called out from the back of the room, "Praise the Lord."

We're going to bring that figure down by another quarter of a million by 1998. I'm feeling it at Treasury. There are 6,000 fewer authorized positions in Treasury now than there were a year ago. Next year that figure will be 8,200 fewer.

Making our domestic economy strong is just the first step. We have to look down the road, realize that our economy and the world's economies are changing. We have to be ready to adapt, because that's the way we're going to maintain our leadership internationally.

We're doing that in a number of ways -- by realizing that education is a lifetime proposition. And by looking outside our borders for opportunities for American businesses.

Bill helped us out with NAFTA last fall, and that's a great one for Texas. I was in San Antonio today at the first meeting of the board of our new North American Development Bank. That's going to help out with environmental work along the border as part of NAFTA.

I was in business for 16 years. Built a good one in Houston. You realize quickly in business that you have to have markets. That's what NAFTA is all about. Finding those markets, and making sure they are open, is one of our top priorities.

We just started talking again with the Japanese about opening their markets. I saw some figures the other day that would amaze you about those Japanese markets, and how closed they are in relation to the rest of the world.

In the United States, 18 percent of the assets, 16 percent of sales, and almost 11 percent of our employment are attributable to investments in our country from abroad. That's because we're committed to open markets. But if you look at Japan, under 1 percent of the assets in Japan are in foreign-owned firms, just 1.2 percent of the sales come from that, and just 0.5 percent of the jobs are attributable to outside investment.

That's why we're working to show Japan why it's in their interest to open up their markets.

We're also reaching out through the General Agreement on Tariffs and Trade, or the GATT as they call it. The most recent round of negotiations-- the Uruguay Round -- is over and we're waiting to have it ratified up on Capitol Hill.

It makes tremendous strides in bringing down trade barriers. We've been at this seven years and it's a question of leadership. I have finance ministers from around the world calling me up asking when are we going to ratify the agreement. I think we'll get it done soon, but our budget rules do require that we find about $12 billion in budget cuts and revenue replacements. Even though in the long run we're going to take in more because of the higher economic activity, the rules require that we replace any revenue we lose from bringing down our tariffs. We're going to do that because this treaty is so important to helping us sustain our growth and tap into global growth.

We also have to think about what will happen if we don't have GATT -- how tariffs on our goods will stay high overseas and what that will do to our exports.

I don't want to make this evening a night of economic statistics. But there more quick points I want to make. One about the strength of this nation and its economy, and the other about making a difference and about leadership.

I was over at the D-Day events in England and France two weeks ago. It was very impressive. In just one day this nation made its mark on the world as a superpower. It was the strength of our economy that took us from 17 percent unemployment and idle capacity in 1939, to the point that we could launch that impressive invasion and start liberating Europe. It was every family, every farm, and every factory, pulling together that made it happen. That's what kind of a nation this is. We're strong. We're risk takers. We can meet change, and make it work for us.

Those events also made me think about the kind of people we are, and about people who make a contribution.

I had to give a speech at a cemetery in Cambridge, England, and most of the graves were of airmen who helped liberate France and take apart the German war machine. A couple of days later I was at Normandy, and at that huge cemetery at Colleville.

At those cemeteries there were row after row after row of crosses, and Stars of David, and names of missing in long rows, and I noticed that a great many of them were Texans. That was a time when regular guys, folks from towns like Amarillo, and Lubbock, and Wichita Falls, went to war. People like Earl Rudder who led the Rangers up the cliffs at Point du Hoc. And people whose names are known only to their families, because their contribution did not draw as much attention.

I couldn't help but be impressed at what they accomplished. One of the reasons they succeeded was, as I mentioned, the strength of our economy. But the other reason was because we are a people of values, people who recognize that public service -- whether it's on the battlefield or in public office -- is an important undertaking.

Let me close by telling you that we've accomplished a great deal in Washington in the past 16 months, putting the economy back on track, restoring America's place of leadership in the world, opening markets.

Thank you.

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TREASURY NEWS

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FOR RELEASE AT 2:30 P.M.
June 17, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately $16,500 million of 52-week Treasury bills to be issued June 30, 1994. This offering will provide about $1,150 million of new cash for the Treasury, as the maturing 52-week bill is currently outstanding in the amount of $15,340 million. In addition to the maturing 52-week bills, there are $26,260 million of maturing 13-week and 26-week bills.

Federal Reserve Banks hold $10,403 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $4,569 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $390 million of the maturing 52-week issue.

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

Details about the new security are given in the attached offering highlights.

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Attachment

LB-900

HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS TO BE ISSUED JUNE 30, 1994

June 17, 1994

Offering Amount	$16,500 million
Description of Offering:	
Term and type of security .	364-day bill
CUSIP number	912794 S8 8
Auction date	June 23, 1994
Issue date	June 30, 1994
Maturity date	June 29, 1995
Original issue date	June 30, 1994
Maturing amount.	$15,340 million
Minimum bid amount	$10,000
Multiples	$1,000
Submission of Bids:	
Noncompetitive bids	Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids.
Competitive bids . . .	(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%. (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position are $2 billion or greater. (3) Net long position must be reported one half-hour prior to the closing time for receipt of competitive bids.
Maximum Recognized Bid at a Single Yield . . .	35% of public offering
Maximum Award	35% of public offering
Receipt of Tenders:	
Noncompetitive tenders . .	Prior to 12:00 noon Eastern Daylight Saving time on auction day.
Competitive tenders	Prior to 1:00 p.m. Eastern Daylight Saving time on auction day.
Payment Terms	Full payment with tender or by charge to a funds account at a Federal Reserve bank on issue date.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
June 20, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $12,147 million of 13-week bills to be issued June 23, 1994 and to mature September 22, 1994 were accepted today (CUSIP: 912794L77).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.16%	4.26%	98.948
High	4.18%	4.28%	98.943
Average	4.18%	4.28%	98.943

$1,400,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 40%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$55,431,010	$12,146,794
Type		
Competitive	$50,371,017	$7,086,801
Noncompetitive	1,274,435	1,274,435
Subtotal, Public	$51,645,452	$8,361,236
Federal Reserve	3,123,510	3,123,510
Foreign Official Institutions	662,048	662,048
TOTALS	$55,431,010	$12,146,794

An additional $471,952 thousand of bills will be issued to foreign official institutions for new cash.

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

FOR IMMEDIATE RELEASE
June 20, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $12,117 million of 26-week bills to be issued June 23, 1994 and to mature December 22, 1994 were accepted today (CUSIP: 912794P57).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.53%	4.70%	97.710
High	4.56%	4.73%	97.695
Average	4.55%	4.72%	97.700

Tenders at the high discount rate were allotted 24%. The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$45,547,910	$12,116,834
Type		
Competitive	$40,265,050	$6,833,974
Noncompetitive	1,056,908	1,056,908
Subtotal, Public	$41,321,958	$7,890,882
Federal Reserve	3,050,000	3,050,000
Foreign Official Institutions	1,175,952	1,175,952
TOTALS	$45,547,910	$12,116,834

An additional $838,148 thousand of bills will be issued to foreign official institutions for new cash.

LB-902

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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June 20, 1994

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of May 1994.

As indicated in this table, U.S. reserve assets amounted to $74,420 million at the end of May 1994, down from $76,565 million in April 1994.

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/
1994					
April	76,565	11,053	9,440	44,173	11,899
May	74,420	11,052	9,522	42,005	11,841

1/ Valued at $42.2222 per fine troy ounce.

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

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

4/ Valued at current market exchange rates.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
June 21, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $22,000 million, to be issued June 30, 1994. This offering will result in a paydown for the Treasury of about $4,250 million, as the maturing 13-week and 26-week bills are outstanding in the amount of $26,260 million. In addition to the maturing 13-week and 26-week bills, there are $15,340 million of maturing 52-week bills. The disposition of this latter amount was announced last week.

Federal Reserve Banks hold $10,403 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $4,544 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $4,154 million of the original 13-week and 26-week issues.

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

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

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Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JUNE 30, 1994

June 21, 1994

Offering Amount	$11,000 million	$11,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 N4 2	912794 P6 5
Auction date	June 27, 1994	June 27, 1994
Issue date	June 30, 1994	June 30, 1994
Maturity date	September 29, 1994	December 29, 1994
Original issue date	March 31, 1994	June 30, 1994
Currently outstanding	$13,266 million	---
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

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

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

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

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

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

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

FOR IMMEDIATE RELEASE
June 21, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $17,007 million of 2-year notes, Series AH-1996, to be issued June 30, 1994 and to mature June 30, 1996 were accepted today (CUSIP: 912827Q39).

The interest rate on the notes will be 6%. All competitive tenders at yields lower than 6.04% were accepted in full. Tenders at 6.04% were allotted 43%. All noncompetitive and sucessful competitive bidders were allotted securities at the yield of 6.04%, with an equivalent price of 99.926. The median yield was 6.01%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 5.97%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$44,868,970	$17,006,817

The $17,007 million of accepted tenders includes $1,438 million of noncompetitive tenders and $15,569 million of competitive tenders from the public.

In addition, $1,088 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $1,650 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

LB-905

STATISTICAL SUMMARY
Series EE and HH U. S. Savings Bonds
Month of May 1994

ISSUES, REDEMPTIONS AND OUTSTANDING	May 1994	May 1993
	(In millions of dollars)	
Sales: Series EE	$ 725	$ 787
Accrued Discount (Interest earned and added to Amount Outstanding) Series E & EE	719	723
Redemptions (Including Accrued Discount) All Series	759	627
Cash Adjustments from Series HH Savings Bonds Exchanges	(1)	(3)
Amount Outstanding Net Change (+)/(-)*	684	880
Total Outstanding	1994	1993
Series E & EE	$165,254	$154,693
Series H & HH	11,313	10,980
	$176,567	$165,673

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Monthly Treasury Statement

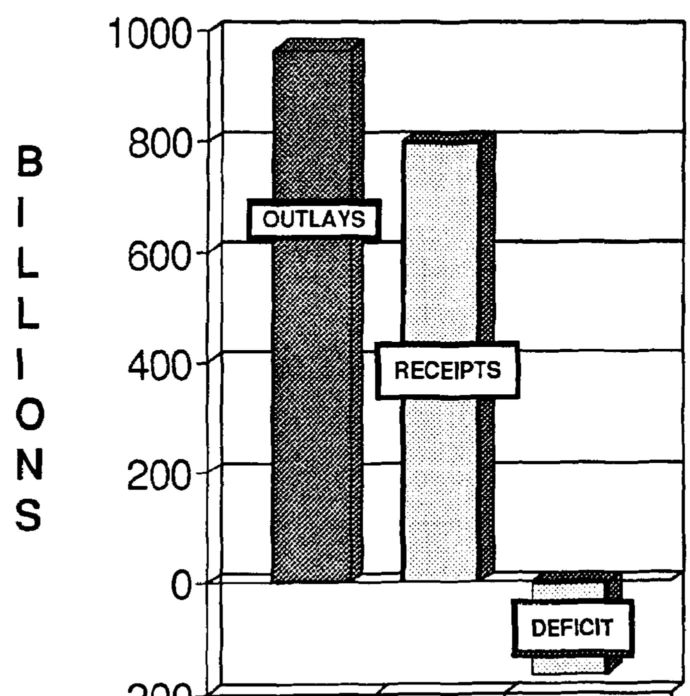
of Receipts and Outlays
of the United States Government

For Fiscal Year 1994 Through **May 31, 1994,** and Other Periods

Highlight

The eight-month cumulative deficit through May 31 for Fiscal Year 1994 is $165.3 billion compared to a cumulative deficit of $212.3 billion for the comparable period in Fiscal Year 1993.

RECEIPTS, OUTLAYS, AND SURPLUS/DEFICIT THROUGH MAY 1994



Contents

Compiled and Published by

Department of the Treasury
Financial Management Service

Introduction

The *Monthly Treasury Statement of Receipts and Outlays of the United States Government (MTS)* is prepared by the Financial Management Service, Department of the Treasury, and after approval by the Fiscal Assistant Secretary of the Treasury, is normally released on the 15th workday of the month following the reporting month. The publication is based on data provided by Federal entities, disbursing officers, and Federal Reserve banks.

Audience

The *MTS* is published to meet the needs of: Those responsible for or interested in the cash position of the Treasury; Those who are responsible for or interested in the Government's budget results; and individuals and businesses whose operations depend upon or are related to the Government's financial operations.

Disclosure Statement

This statement summarizes the financial activities of the Federal Government and off-budget Federal entities conducted in accordance with the Budget of the U.S. Government, i.e., receipts and outlays of funds, the surplus or deficit, and the means of financing the deficit or disposing of the surplus. Information is presented on a modified cash basis: receipts are accounted for on the basis of collections; refunds of receipts are treated as deductions from gross receipts; revolving and management fund receipts, reimbursements and refunds of monies previously expended are treated as deductions from gross outlays; and interest on the public debt (public issues) is recognized on the accrual basis. Major information sources include accounting data reported by Federal entities, disbursing officers, and Federal Reserve banks.

Triad of Publications

The *MTS* is part of a triad of Treasury financial reports. The *Daily Treasury Statement* is published each working day of the Federal Government. It provides data on the cash and debt operations of the Treasury based upon reporting of the Treasury account balances by Federal Reserve banks. The *MTS* is a report of Government receipts and outlays, based on agency reporting. The *U.S. Government Annual Report* is the official publication of the detailed receipts and outlays of the Government. It is published annually in accordance with legislative mandates given to the Secretary of the Treasury.

Data Sources and Information

The Explanatory Notes section of this publication provides information concerning the flow of data into the *MTS* and sources of information relevant to the *MTS*

Table 1. Summary of Receipts, Outlays, and the Deficit/Surplus of the U.S. Government, Fiscal Years 1993 and 1994, by Month

[$ millions]

Period	Receipts	Outlays	Deficit/Surplus (−)
FY 1993			
October	76,829	125,620	48,792
November	74,629	107,355	32,726
December	113,686	152,633	38,947
January	112,716	82,899	−29,817
February	65,979	[1]114,477	48,498
March	83,288	127,263	43,974
April	132,017	[1]124,200	−7,817
May	70,642	107,605	36,963
June	128,570	117,471	−11,099
July	80,630	120,207	39,577
August	86,737	109,815	23,078
September	127,504	118,939	−8,565
Year-to-Date	**[2]1,153,226**	**[2]1,408,484**	**[2]255,258**
FY 1994			
October	78,668	124,090	45,422
November	83,107	121,488	38,381
December	125,408	133,660	8,252
January	122,966	107,718	−15,248
February	72,874	114,440	41,566
March	93,108	125,423	32,315
April	141,326	123,872	−17,454
May	83,546	115,600	32,054
Year-to-Date	**801,002**	**966,291**	**165,289**

[1]Outlays for the Postal Service have been increased in February 1993 by $301 million and in April 1993 by $274 million to record money orders issued, previously reported as offsetting receipts, and to record outlays previously reported as a deposit fund; respectively.

[2]The receipt, outlay and deficit figures differ from the *FY 1995 Budget*, released by the Office of Management and Budget on February 7, 1994, by $589 million due mainly to revisions in data following the release of the Final September Monthly Treasury Statement.

Table 2. Summary of Budget and Off-Budget Results and Financing of the U.S. Government, May 1994 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Budget Estimates Full Fiscal Year[1]	Prior Fiscal Year to Date (1993)	Budget Estimates Next Fiscal Year (1995)[1]
Total on-budget and off-budget results:					
Total receipts	83,546	801,002	1,249,071	729,785	1,353,815
On-budget receipts	55,366	579,840	912,892	524,785	998,594
Off-budget receipts	28,179	221,162	336,179	205,000	355,221
Total outlays	115,600	966,291	1,483,829	942,052	1,518,945
On-budget outlays	89,728	781,931	1,202,953	766,420	1,223,582
Off-budget outlays	25,871	184,360	280,876	175,632	295,364
Total surplus (+) or deficit (−)	−32,054	−165,289	−234,758	−212,266	−165,130
On-budget surplus (+) or deficit (−)	−34,362	−202,091	−290,061	−241,635	−224,987
Off-budget surplus (+) or deficit (−)	+2,308	+36,802	+55,303	+29,369	+59,857
Total on-budget and off-budget financing	32,054	165,289	234,758	212,266	165,130
Means of financing:					
Borrowing from the public	27,649	146,337	225,234	177,852	173,715
Reduction of operating cash, increase (−)	21,537	25,312	12,506	38,489	......
By other means	−17,132	−6,360	−2,982	−4,074	−8,585

[1]These figures are based on the *FY 1995 Budget*, released by the Office of Management and Budget on February 7, 1994.

... No Transactions.
Note: Details may not add to totals due to rounding.

Figure 1. Monthly Receipts, Outlays, and Budget Deficit/Surplus of the U.S. Government, Fiscal Years 1993 and 1994

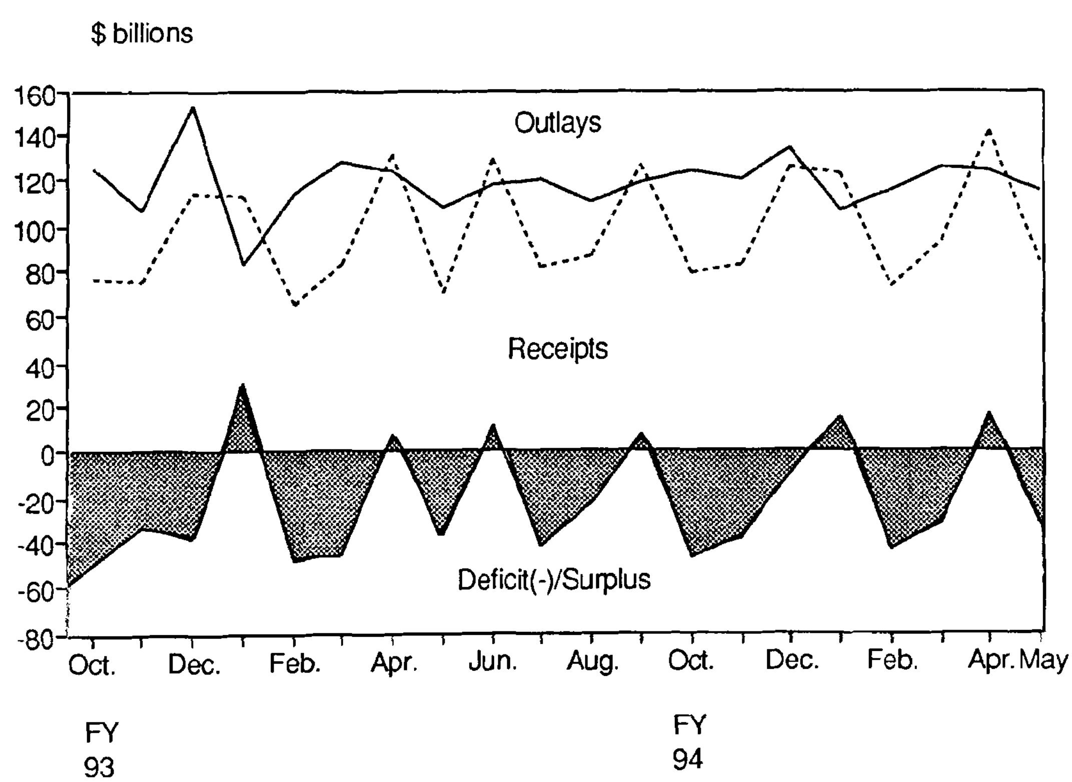


Figure 2. Monthly Receipts of the U.S. Government, by Source, Fiscal Years 1993 and 1994

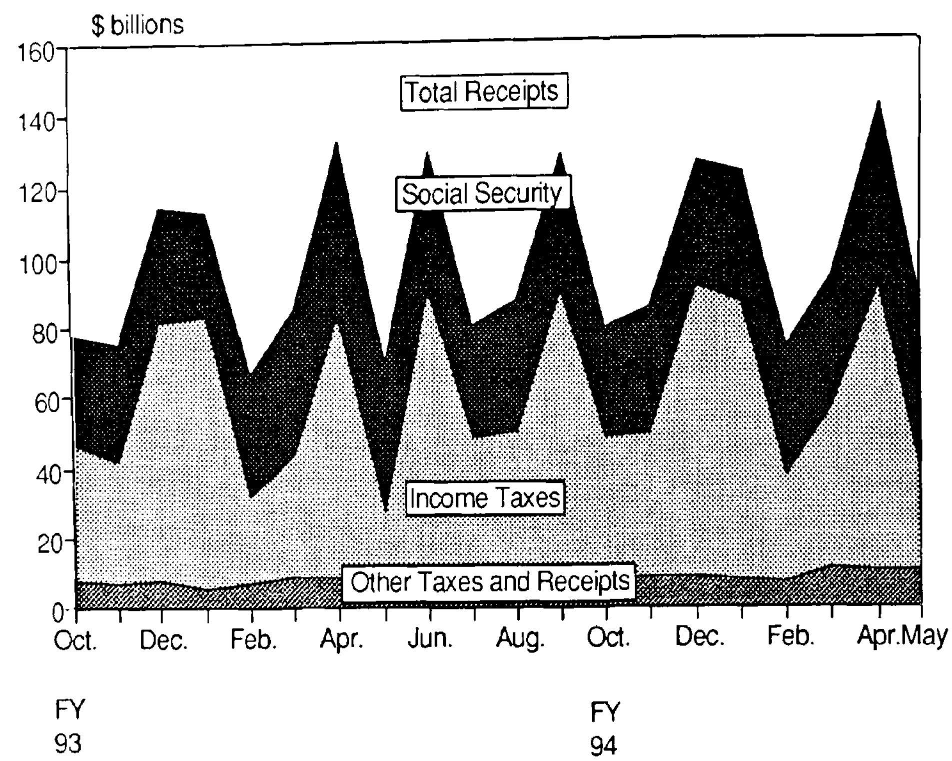


Figure 3. Monthly Outlays of the U.S. Government, by Function, Fiscal Years 1993 and 1994

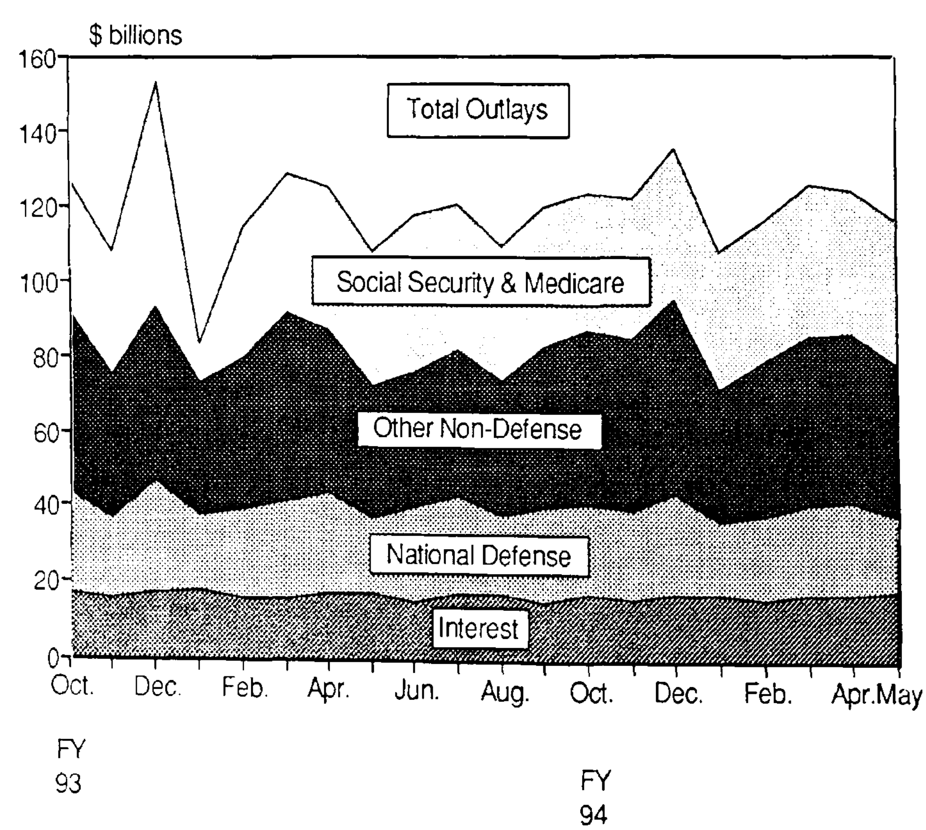


Table 3. Summary of Receipts and Outlays of the U.S. Government, May 1994 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Comparable Prior Period	Budget Estimates Full Fiscal Year[1]
Budget Receipts				
Individual income taxes	24,384	346,109	320,659	549,901
Corporation income taxes	2,817	77,092	63,424	130,719
Social insurance taxes and contributions:				
Employment taxes and contributions (off-budget)	28,179	221,162	205,000	336,179
Employment taxes and contributions (on-budget)	7,570	60,939	55,690	93,974
Unemployment insurance	10,426	21,089	19,323	27,041
Other retirement contributions	364	3,068	3,173	4,729
Excise taxes	5,253	34,948	30,598	54,550
Estate and gift taxes	1,342	10,603	8,534	12,749
Customs duties	1,620	12,769	11,925	19,198
Miscellaneous receipts	1,589	13,224	11,460	20,031
Total Receipts	**83,546**	**801,002**	**729,785**	**1,249,071**
(On-budget)	**55,366**	**579,840**	**524,785**	**912,892**
(Off-budget)	**28,179**	**221,162**	**205,000**	**336,179**
Budget Outlays				
Legislative Branch	188	1,751	1,613	2,755
The Judiciary	224	1,715	1,667	2,872
Executive Office of the President	16	142	134	193
Funds Appropriated to the President	772	8,838	9,250	11,383
Department of Agriculture	4,908	43,497	47,636	64,931
Department of Commerce	173	1,977	1,815	3,234
Department of Defense—Military	18,530	175,209	185,920	267,484
Department of Defense—Civil	2,507	20,073	19,508	30,980
Department of Education	2,243	15,316	20,564	28,738
Department of Energy	1,158	11,398	10,777	17,206
Department of Health and Human Services, except Social Security	22,993	203,022	184,872	316,615
Department of Health and Human Services, Social Security	26,518	205,001	194,597	314,663
Department of Housing and Urban Development	2,048	17,391	16,411	25,535
Department of the Interior	448	4,375	4,216	7,240
Department of Justice	836	6,645	6,997	10,817
Department of Labor	2,679	26,173	30,194	37,111
Department of State	320	3,664	3,803	5,785
Department of Transportation	2,903	23,944	21,315	36,687
Department of the Treasury:				
Interest on the Public Debt	23,943	187,110	186,590	298,505
Other	666	11,194	7,929	10,763
Department of Veterans Affairs	1,645	23,969	23,301	37,919
nvironmental Protection Agency	439	3,702	3,778	6,539
eneral Services Administration	417	−82	265	1,048
ational Aeronautics and Space Administration	1,110	8,899	9,452	14,183
ffice of Personnel Management	3,012	25,273	24,113	38,101
mall Business Administration	70	414	581	604
ther independent agencies:				
Resolution Trust Corporation	1,777	2,678	−14,332	3,555
Other	1,555	4,185	[2]7,432	11,617
ndistributed offsetting receipts:				
Interest	−5,467	−48,463	−46,128	−85,845
Other	−3,032	−22,721	−22,218	−37,389
Total outlays	**115,600**	**966,291**	**942,052**	**1,483,829**
(On-budget)	**89,728**	**781,931**	**766,420**	**1,202,953**
(Off-budget)	**25,871**	**184,360**	**175,632**	**280,876**
Surplus (+) or deficit (−)	**−32,054**	**−165,289**	**−212,266**	**−234,758**
(On-budget)	**−34,362**	**−202,091**	**−241,635**	**−290,061**
(Off-budget)	**+2,308**	**+36,802**	**+29,369**	**+55,303**

[1]These figures are based on the *FY 1995 Budget*, released by the Office of Management and dget on February 7, 1994.

[2]Outlays for the Postal Service have been increased in February 1993 by $301 million and in April 1993 by $274 million to record money orders issued, previously reported as offsetting receipts; and to record outlays previously reported as a deposit fund; respectively.

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

Table 4. Receipts of the U.S. Government, May 1994 and Other Periods

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Receipts	Refunds (Deduct)	Receipts	Gross Receipts	Refunds (Deduct)	Receipts	Gross Receipts	Refunds (Deduct)	Receipts
Individual income taxes:									
Withheld	35,706			310,954			289,119		
Presidential Election Campaign Fund	12			53			21		
Other	5,359			105,443			100,731		
Total—Individual income taxes	**41,076**	**16,692**	**24,384**	**416,449**	**70,340**	**346,109**	**389,872**	**69,213**	**320,659**
Corporation income taxes	**3,847**	**1,030**	**2,817**	**86,811**	**9,719**	**77,092**	**73,742**	**10,318**	**63,424**
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	24,344	......	24,344	188,025	......	188,025	176,032	......	176,032
Self-Employment Contributions Act taxes	1,108	......	1,108	11,780	......	11,780	9,134	......	9,134
Deposits by States	(* *)	......	(* *)	−45	......	−45	−12	......	−12
Other	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—FOASI trust fund	25,452	......	25,452	199,761	......	199,761	185,154	......	185,154
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	2,608	......	2,608	20,143	......	20,143	18,871	......	18,871
Self-Employment Contributions Act taxes	119	......	119	1,258	......	1,258	976	......	976
Receipts from railroad retirement account	......	......	......	......	......	......	......	......	......
Deposits by States	......	......	......	(* *)	......	(* *)	−1	......	−1
Other	......	......	......	......	......	......	......	......	......
Total—FDI trust fund	2,727	......	2,727	21,401	......	21,401	19,846	......	19,846
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	6,864	......	6,864	54,281	......	54,281	49,972	......	49,972
Self-Employment Contributions Act taxes	350	......	350	3,911	......	3,911	3,020	......	3,020
Receipts from Railroad Retirement Board	......	......	......	......	......	......	......	......	......
Deposits by States	......	......	......	(* *)	......	(* *)	−3	......	−3
Total—FHI trust fund	7,214	......	7,214	58,192	......	58,192	52,990	......	52,990
Railroad retirement accounts:									
Rail industry pension fund	229	4	224	1,560	29	1,532	1,516	8	1,509
Railroad Social Security equivalent benefit	132	......	132	1,215	......	1,215	1,191	......	1,191
Total—Employment taxes and contributions	35,753	4	35,749	282,129	29	282,100	260,698	8	260,690
Unemployment insurance:									
State taxes deposited in Treasury	8,435	......	8,435	16,738	......	16,738	14,868	......	14,868
Federal Unemployment Tax Act taxes	1,981	10	1,970	4,366	69	4,298	4,401	82	4,319
Railroad unemployment taxes	3	......	3	21	......	21	58	......	58
Railroad debt repayment	18	......	18	32	......	32	77	......	77
Total—Unemployment insurance	10,437	10	10,426	21,158	69	21,089	19,405	82	19,323
Other retirement contributions:									
Federal employees retirement – employee contributions	357	......	357	3,004	......	3,004	3,109	......	3,109
Contributions for non-federal employees	8	......	8	64	......	64	63	......	63
Total—Other retirement contributions	364	......	364	3,068	......	3,068	3,173	......	3,173
Total—Social insurance taxes and contributions	**46,554**	**15**	**46,540**	**306,355**	**98**	**306,257**	**283,275**	**90**	**283,185**
Excise taxes:									
Miscellaneous excise taxes[1]	3,616	66	3,550	20,632	489	20,144	17,417	358	17,059
Airport and airway trust fund	482	......	482	3,278	24	3,254	1,484	10	1,474
Highway trust fund	1,168	......	1,168	11,469	327	11,142	11,813	170	11,643
Black lung disability trust fund	53	......	53	408	......	408	421	......	421
Total—Excise taxes	**5,319**	**66**	**5,253**	**35,787**	**840**	**34,948**	**31,136**	**538**	**30,598**
Estate and gift taxes	**1,372**	**30**	**1,342**	**10,853**	**250**	**10,603**	**8,744**	**210**	**8,534**
Customs duties	**1,684**	**64**	**1,620**	**13,319**	**551**	**12,769**	**12,429**	**503**	**11,925**
Miscellaneous Receipts:									
Deposits of earnings by Federal Reserve banks	1,325	......	1,325	10,824	......	10,824	9,289	......	9,289
All other	266	2	264	2,413	14	2,400	2,324	154	2,171
Total — Miscellaneous receipts	**1,591**	**2**	**1,589**	**13,237**	**14**	**13,224**	**11,614**	**154**	**11,460**
Total — Receipts	**101,443**	**17,898**	**83,546**	**882,812**	**81,810**	**801,002**	**810,811**	**81,025**	**729,785**
Total — On-budget	**73,264**	**17,898**	**55,366**	**661,651**	**81,810**	**579,840**	**605,810**	**81,025**	**524,785**
Total — Off-budget	**28,179**	......	**28,179**	**221,162**	......	**221,162**	**205,000**	......	**205,000**

[1]Includes amounts for the windfall profits tax pursuant to P.L. 96-223.
No Transactions

(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 5. Outlays of the U.S. Government, May 1994 and Other Periods

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Legislative Branch:									
Senate	35	(* *)	35	281	1	280	306	1	305
House of Representatives	62	1	61	503	12	491	516	7	508
Joint items	6	......	6	51	......	51	52	......	52
Congressional Budget Office	2	......	2	14	......	14	15	......	15
Architect of the Capitol	15	1	14	133	6	128	151	6	145
Library of Congress	28	......	28	370	......	370	217	......	217
Government Printing Office:									
Revolving fund (net)	-9	......	-9	31	......	31	-27	......	-27
General fund appropriations	9	......	9	63	......	63	70	......	70
General Accounting Office	38	......	38	289	......	289	297	......	297
United States Tax Court	2	......	2	22	......	22	22	......	22
Other Legislative Branch agencies	3	......	3	21	......	21	23	......	23
Proprietary receipts from the public	......	1	-1	......	2	-2	......	5	-5
Intrabudgetary transactions	(* *)	......	(* *)	-7	......	-7	-8	......	-8
Total—Legislative Branch	**191**	**3**	**188**	**1,772**	**21**	**1,751**	**1,632**	**19**	**1,613**
The Judiciary:									
Supreme Court of the United States	1	......	1	16	......	16	16	......	16
Courts of Appeals, District Courts, and other judicial services	212	1	211	1,624	2	1,622	1,594	(* *)	1,594
Other	12	......	12	77	......	77	57	......	57
Total—The Judiciary	**225**	**1**	**224**	**1,717**	**2**	**1,715**	**1,667**	**(* *)**	**1,667**
Executive Office of the President:									
Compensation of the President and the White House Office	3	......	3	27	......	27	27	......	27
Office of Management and Budget	4	......	4	38	......	38	36	......	36
Other	10	......	10	77	......	77	70	......	70
Total—Executive Office of the President	**16**	**......**	**16**	**142**	**......**	**142**	**134**	**......**	**134**
Funds Appropriated to the President:									
International Security Assistance:									
Guaranty reserve fund	118	38	80	600	386	214	533	373	159
Foreign military financing grants	177	......	177	3,362	......	3,362	3,424	......	3,424
Economic support fund	141	......	141	2,335	......	2,335	2,474	......	2,474
Military assistance	1	......	1	14	......	14	-4	......	-4
Peacekeeping Operations	7	......	7	42	......	42	21	......	21
Other	2	......	2	19	......	19	24	......	24
Proprietary receipts from the public	......	......	......	......	......	......	......	......	......
Total—International Security Assistance	446	38	409	6,372	386	5,986	6,472	373	6,098
International Development Assistance:									
Multilateral Assistance:									
Contribution to the International Development Association	......	......	......	637	......	637	562	......	562
International organizations and programs	5	......	5	127	......	127	222	......	222
Other	26	......	26	306	......	306	335	......	335
Total—Multilateral Assistance	31	......	31	1,070	......	1,070	1,118	......	1,118
Agency for International Development:									
Functional development assistance program	150	......	150	925	......	925	895	......	895
Sub-Saharan Africa development assistance	67	......	67	430	......	430	455	......	455
Operating expenses	55	......	55	347	......	347	315	......	315
Payment to the Foreign Service retirement and disability fund	......	......	......	44	......	44	......	......	......
Other	82	5	76	496	42	455	418	33	385
Proprietary receipts from the public	......	82	-82	......	502	-502	......	554	-554
Intrabudgetary transactions	-1	......	-1	-2	......	-2	......	......	......
Total—Agency for International Development	352	87	265	2,241	543	1,698	2,083	587	1,496
Peace Corps	18	......	18	136	......	136	129	......	129
Overseas Private Investment Corporation	4	46	-43	28	151	-124	51	171	-120
Other	11	4	7	61	409	-348	57	387	-330
Total—International Development Assistance	415	137	278	3,535	1,104	2,431	3,439	1,146	2,293
International Monetary Programs	34	......	34	12	......	12	241	......	241
Military Sales Programs:									
Special defense acquisition fund	12	11	1	118	181	-63	177	139	38
Foreign military sales trust fund	1,129	......	1,129	8,822	......	8,822	8,333	......	8,333
Kuwait civil reconstruction trust fund	(* *)	......	(* *)	(* *)	......	(* *)	6	(* *)	6
Proprietary receipts from the public	......	1,095	-1,095	......	8,399	-8,399	......	7,769	-7,769
Other	17	......	17	49	......	49	9	......	9
ıtal—Funds Appropriated to the President	**2,054**	**1,281**	**772**	**18,908**	**10,070**	**8,838**	**18,677**	**9,427**	**9,250**

Table 5. Outlays of the U.S. Government, May 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Agriculture:									
Agricultural Research Service	54	......	54	468	......	468	493	......	493
Cooperative State Research Service	36	......	36	301	......	301	286	......	286
Extension Service	37	......	37	284	......	284	261	......	261
Animal and Plant Health Inspection Service	42	......	42	315	......	315	329	......	329
Food Safety and Inspection Service	41	......	41	343	......	343	335	......	335
Agricultural Marketing Service	65	......	65	495	1	494	576	1	575
Soil Conservation Service:									
Watershed and flood prevention operations	23	......	23	175	......	175	144	......	144
Conservation operations	45	......	45	404	......	404	386	......	386
Other	7	......	7	54	......	54	54	......	54
Agricultural Stabilization and Conservation Service:									
Conservation programs	22	......	22	1,846	......	1,846	1,771	......	1,771
Other	53	......	53	469	......	469	504	......	504
Farmers Home Administration:									
Credit accounts:									
Agricultural credit insurance fund	255	133	122	1,376	1,394	−18	1,392	1,535	−143
Rural housing insurance fund	451	275	176	2,770	2,190	580	2,395	2,104	291
Other	......	......	......	(* *)	......	(* *)	9	(* *)	9
Salaries and expenses	41	......	41	−254	......	−254	433	......	433
Other	10	(* *)	10	70	1	69	62	2	59
Total—Farmers Home Administration	757	408	349	3,963	3,585	377	4,292	3,642	649
Foreign assistance programs	−44	......	−44	590	......	590	350	......	350
Rural Development Administration:									
Rural development insurance fund	89	38	51	630	386	244	687	318	369
Rural water and waste disposal grants	24	......	24	197	......	197	148	......	148
Other	16	......	16	12	......	12	20	......	20
Rural Electrification Administration	93	170	−77	1,804	2,717	−913	1,880	2,743	−863
Federal Crop Insurance Corporation	16	3	13	1,430	348	1,082	508	324	184
Commodity Credit Corporation:									
Price support and related programs	1,269	529	739	15,432	4,927	10,504	21,171	4,865	16,306
National Wool Act Program	7	......	7	200	......	200	163	......	163
Food and Nutrition Service:									
Food stamp program	2,213	......	2,213	17,125	......	17,125	16,408	......	16,408
State child nutrition programs	670	......	670	5,081	......	5,081	4,850	......	4,850
Women, infants and children programs	290	......	290	2,168	......	2,168	1,947	......	1,947
Other	37	......	37	366	......	366	457	......	457
Total—Food and Nutrition Service	3,210	......	3,210	24,740	......	24,740	23,662	......	23,662
Forest Service:									
National forest system	147	......	147	1,069	......	1,069	1,100	......	1,100
Forest and rangeland protection	25	......	25	210	......	210	239	......	239
Forest service permanent appropriations	21	......	21	260	......	260	218	......	218
Other	66	......	66	401	......	401	434	......	434
Total—Forest Service	258	......	258	1,940	......	1,940	1,991	......	1,991
Other	7	3	4	435	24	412	419	26	393
Proprietary receipts from the public	......	67	−67	......	1,040	−1,040	......	724	−724
Intrabudgetary transactions	......	......	......	......	......	......	−150	......	−150
Total—Department of Agriculture	**6,126**	**1,218**	**4,908**	**56,525**	**13,028**	**43,497**	**60,278**	**12,642**	**47,636**
Department of Commerce:									
Economic Development Administration	21	1	20	181	10	171	83	14	70
Bureau of the Census	17	......	17	181	......	181	239	......	239
Promotion of Industry and Commerce	26	......	26	206	......	206	207	......	207
Science and Technology:									
National Oceanic and Atmospheric Administration	160	2	158	1,285	10	1,275	1,101	18	1,083
Patent and Trademark Office	−5	......	−5	36	......	36	40	......	40
National Institute of Standards and Technology	−44	......	−44	80	......	80	148	......	148
Other	6	3	3	59	23	36	58	27	32
Total—Science and Technology	117	5	112	1,460	32	1,428	1,348	45	1,303
Other	7	......	7	70	......	70	74	......	74
Proprietary receipts from the public	......	9	−9	......	79	−79	......	77	−77
Intrabudgetary transactions	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Offsetting governmental receipts	......	......	......	......	......	......	......	(* *)	(* *)
Total—Department of Commerce	**188**	**15**	**173**	**2,099**	**121**	**1,977**	**1,951**	**135**	**1,815**

Table 5. Outlays of the U.S. Government, May 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Defense—Military:									
Military personnel:									
Department of the Army	1,057	......	1,057	17,491	......	17,491	18,540	......	18,540
Department of the Navy	1,382	......	1,382	17,285	......	17,285	18,142	......	18,142
Department of the Air Force	712	......	712	11,829	......	11,829	13,715	......	13,715
Total—Military personnel	3,150	......	3,150	46,605	......	46,605	50,398	......	50,398
Operation and maintenance:									
Department of the Army	1,509	......	1,509	13,736	......	13,736	16,025	......	16,025
Department of the Navy	1,563	......	1,563	14,164	......	14,164	15,996	......	15,996
Department of the Air Force	1,778	......	1,778	15,985	......	15,985	15,553	......	15,553
Defense agencies	1,503	......	1,503	12,965	......	12,965	12,412	......	12,412
Total—Operation and maintenance	6,354	......	6,354	56,851	......	56,851	59,986	......	59,986
Procurement:									
Department of the Army	623	......	623	5,459	......	5,459	7,596	......	7,596
Department of the Navy	2,041	......	2,041	17,263	......	17,263	19,415	......	19,415
Department of the Air Force	1,538	......	1,538	15,588	......	15,588	16,778	......	16,778
Defense agencies	343	......	343	2,741	......	2,741	2,333	......	2,333
Total—Procurement	4,545	......	4,545	41,050	......	41,050	46,123	......	46,123
Research, development, test, and evaluation:									
Department of the Army	450	......	450	3,819	......	3,819	4,074	......	4,074
Department of the Navy	716	......	716	5,019	......	5,019	5,355	......	5,355
Department of the Air Force	1,111	......	1,111	8,464	......	8,464	8,392	......	8,392
Defense agencies	813	......	813	5,510	......	5,510	5,967	......	5,967
Total—Research, development, test and evaluation	3,090	......	3,090	22,813	......	22,813	23,789	......	23,789
Military construction:									
Department of the Army	89	......	89	604	......	604	683	......	683
Department of the Navy	23	......	23	354	......	354	582	......	582
Department of the Air Force	93	......	93	688	......	688	772	......	772
Defense agencies	260	......	260	1,321	......	1,321	1,049	......	1,049
Total—Military construction	465	......	465	2,967	......	2,967	3,086	......	3,086
Family housing:									
Department of the Army	111	......	111	846	......	846	877	......	877
Department of the Navy	67	......	67	524	......	524	564	......	564
Department of the Air Force	78	......	78	688	......	688	595	......	595
Defense agencies	9	2	7	69	22	47	56	9	46
Revolving and management funds:									
Department of the Army	85	......	85	56	......	56	21	......	21
Department of the Navy	21	......	21	244	......	244	−54	......	−54
Department of the Air Force	......	......	......	......	......	......	......	......	......
Defense agencies:									
Defense business operations fund	478	......	478	2,545	......	2,545	1,504	......	1,504
Other	−14	1	−15	−239	4	−243	−123	3	−127
Trust funds:									
Department of the Army	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	(* *)	(* *)
Department of the Navy	3	2	1	22	9	12	31	12	19
Department of the Air Force	(* *)	......	(* *)	6	6	(* *)	23	19	4
Defense agencies	7	......	7	150	......	150	71	......	71
Proprietary receipts from the public:									
Department of the Army	......	−60	60	......	49	−49	......	244	−244
Department of the Navy	......	−18	18	......	67	−67	......	116	−116
Department of the Air Force	......	−23	23	......	328	−328	......	295	−295
Defense agencies	......	12	−12	......	208	−208	......	20	−20
Intrabudgetary transactions:									
Department of the Army	−32	......	−32	120	......	120	144	......	144
Department of the Navy	5	......	5	528	......	528	496	......	496
Department of the Air Force	4	......	4	120	......	120	116	......	116
Defense agencies	18	......	18	−56	......	−56	−1,017	......	−1,017
Offsetting governmental receipts:									
Department of the Army	......	......	......	......	6	−6	......	18	−18
Defense agencies	......	(* *)	(* *)	......	(* *)	(* *)	......	27	−27
Total—Department of Defense—Military	**18,444**	**−85**	**18,530**	**175,907**	**698**	**175,209**	**186,685**	**765**	**185,920**

Table 5. Outlays of the U.S. Government, May 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Defense—Civil									
Corps of Engineers									
Construction, general	72	......	72	589	......	589	660	......	660
Operation and maintenance, general	86	......	86	693	......	693	921	......	921
Other	104	......	104	1,048	......	1,048	827	......	827
Proprietary receipts from the public	......	22	−22	......	110	−110	......	128	−128
Total—Corps of Engineers	262	22	241	2,330	110	2,220	2,407	128	2,279
Military retirement									
Payment to military retirement fund	......	......	......	11,908	......	11,908	12,273	......	12,273
Retired pay	......	......	......	......	......	......	(* *)	......	(* *)
Military retirement fund	2,249	......	2,249	17,684	......	17,684	17,066	......	17,066
Intrabudgetary transactions	......	......	......	−11,908	......	−11,908	−12,273	......	−12,273
Education benefits	12	......	12	127	......	127	126	......	126
Other	7	......	7	52	2	50	46	3	43
Proprietary receipts from the public	......	1	−1	......	8	−8	......	6	−6
Total—Department of Defense—Civil	**2,530**	**22**	**2,507**	**20,194**	**120**	**20,073**	**19,645**	**137**	**19,508**
Department of Education:									
Office of Elementary and Secondary Education:									
Compensatory education for the disadvantaged	735	......	735	4,859	......	4,859	4,724	......	4,724
Impact aid	30	......	30	702	......	702	745	......	745
School improvement programs	131	......	131	1,019	......	1,019	1,107	......	1,107
Indian education	6	......	6	52	......	52	53	......	53
Other	1	......	1	7	......	7	9	......	9
Total—Office of Elementary and Secondary Education	904	......	904	6,639	......	6,639	6,638	......	6,638
Office of Bilingual Education and Minority Languages Affairs	20	......	20	150	......	150	131	......	131
Office of Special Education and Rehabilitative Services:									
Special education	255	......	255	2,071	......	2,071	1,814	......	1,814
Rehabilitation services and disability research	173	......	173	1,524	......	1,524	1,373	......	1,373
Special institutions for persons with disabilities	9	......	9	90	......	90	88	......	88
Office of Vocational and Adult Education	93	......	93	947	......	947	1,029	......	1,029
Office of Postsecondary Education:									
College housing loans	......	6	−6	1	38	−36	12	50	−38
Student financial assistance	358	......	358	5,205	......	5,205	5,483	......	5,483
Federal family education loans	275	......	275	−2,376	......	−2,376	3,003	......	3,003
Higher education	64	......	64	485	......	485	473	......	473
Howard University	24	......	24	143	......	143	133	......	133
Other	30	......	30	62	......	62	12	......	12
Total—Office of Postsecondary Education	750	6	744	3,520	38	3,482	9,116	50	9,066
Office of Educational Research and Improvement	34	......	34	286	......	286	241	......	241
Departmental management	22	......	22	243	......	243	231	......	231
Proprietary receipts from the public	......	12	−12	......	116	−116	......	47	−47
Total—Department of Education	**2,261**	**18**	**2,243**	**15,470**	**154**	**15,316**	**20,661**	**97**	**20,564**
Department of Energy:									
Atomic energy defense activities	939	......	939	7,889	......	7,889	7,104	......	7,104
Energy programs:									
General science and research activities	94	......	94	853	......	853	952	......	952
Energy supply, R and D activities	247	......	247	2,015	......	2,015	1,877	......	1,877
Uranium supply and enrichment activities	8	......	8	245	......	245	755	......	755
Fossil energy research and development	37	......	37	270	......	270	261	......	261
Energy conservation	53	......	53	370	......	370	331	......	331
Strategic petroleum reserve	21	......	21	196	......	196	303	......	303
Clean coal technology	......	......	......	......	......	......	......	......	......
Nuclear waste disposal fund	22	......	22	175	......	175	165	......	165
Other	73	(* *)	73	587	2	585	102	2	100
Total—Energy programs	557	(* *)	557	4,711	2	4,709	4,746	2	4,743
Power Marketing Administration	146	153	−7	1,176	1,148	28	1,391	981	410
Departmental administration	49	......	49	300	......	300	261	......	261
Proprietary receipts from the public	......	276	−276	......	1,147	−1,147	......	1,504	−1,504
Intrabudgetary transactions	−49	......	−49	−274	......	−274	−219	......	−219
Offsetting governmental receipts	......	56	−56	......	107	−107	......	19	−19
Total—Department of Energy	**1,643**	**485**	**1,158**	**13,802**	**2,404**	**11,398**	**13,283**	**2,506**	**10,777**

Table 5. Outlays of the U.S. Government, May 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Health and Human Services, except Social Security:									
Public Health Service:									
Food and Drug Administration	66	(* *)	66	508	2	505	492	3	489
Health Resources and Services Administration	234	......	234	1,539	......	1,539	1,496	......	1,496
Indian Health Services	154	......	154	1,149	......	1,149	1,069	......	1,069
Centers for Disease Control and Prevention	111	......	111	969	......	969	849	......	849
National Institutes of Health	911	......	911	6,810	......	6,810	6,381	......	6,381
Substance Abuse and Mental Health Services Administration	205	......	205	1,547	......	1,547	1,802	......	1,802
Agency for Health Care Policy and Research	11	......	11	64	......	64	35	......	35
Assistant secretary for health	−62	......	−62	133	......	133	105	......	105
Total—Public Health Service	1,630	(* *)	1,630	12,720	2	12,717	12,230	3	12,227
Health Care Financing Administration:									
Grants to States for Medicaid	6,982	......	6,982	54,083	......	54,083	49,131	......	49,131
Payments to health care trust funds	2,980	......	2,980	27,422	......	27,422	29,860	......	29,860
Federal hospital insurance trust fund:									
Benefit payments	8,249	......	8,249	65,953	......	65,953	58,734	......	58,734
Administrative expenses	90	......	90	826	......	826	793	......	793
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Total—FHI trust fund	8,339	......	8,339	66,779	......	66,779	59,527	......	59,527
Federal supplementary medical insurance trust fund:									
Benefit payments	4,482	......	4,482	37,046	......	37,046	33,651	......	33,651
Administrative expenses	140	......	140	1,119	......	1,119	962	......	962
Total—FSMI trust fund	4,623	......	4,623	38,165	......	38,165	34,614	......	34,614
Other	21	......	21	17	......	17	81	......	81
Total—Health Care Financing Administration	22,944	......	22,944	186,466	......	186,466	173,213	......	173,213
Social Security Administration:									
Payments to Social Security trust funds	7	......	7	4,145	......	4,145	4,623	......	4,623
Special benefits for disabled coal miners	64	......	64	521	......	521	539	......	539
Supplemental security income program	226	......	226	16,137	......	16,137	14,964	......	14,964
Total—Social Security Administration	298	......	298	20,803	......	20,803	20,127	......	20,127
Administration for children and families:									
Family support payments to States	1,480	......	1,480	11,294	......	11,294	10,695	......	10,695
Low income home energy assistance	133	......	133	1,835	......	1,835	986	......	986
Refugee and entrant assistance	16	......	16	254	......	254	265	......	265
Community Services Block Grant	40	......	40	295	......	295	252	......	252
Payments to States for afdc work programs	63	......	63	538	......	538	487	......	487
Interim assistance to States for legalization	15	......	15	615	......	615	93	......	93
Payments to States for child care assistance	51	......	51	516	......	516	232	......	232
Social services block grant	237	......	237	1,849	......	1,849	1,955	......	1,955
Children and families services programs	325	......	325	2,615	......	2,615	2,418	......	2,418
Payments to States for foster care and adoption assistance	262	......	262	2,064	......	2,064	1,724	......	1,724
Other	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—Administration for children and families	2,622	......	2,622	21,874	......	21,874	19,106	......	19,106
Administration on aging	62	......	62	549	......	549	355	......	355
Office of the Secretary	25	......	25	130	......	130	125	......	125
Proprietary receipts from the public	......	1,608	−1,608	......	12,095	−12,095	......	10,421	−10,421
Intrabudgetary transactions:									
Payments for health insurance for the aged:									
Federal hospital insurance trust fund	......	......	......	......	......	......	......	......	......
Federal supplementary medical insurance trust fund	−2,980	......	−2,980	−26,268	......	−26,268	−29,378	......	−29,378
Payments for tax and other credits:									
Federal hospital insurance trust fund	......	......	......	−1,154	......	−1,154	−481	......	−481
Other	......	......	......	......	......	......	......	......	......
Total—Department of Health and Human Services, except Social Security	**24,601**	**1,608**	**22,993**	**215,120**	**12,097**	**203,022**	**195,297**	**10,424**	**184,872**

Table 5. Outlays of the U.S. Government, May 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund:									
Benefit payments	23,192	......	23,192	183,267	......	183,267	175,356	......	175,356
Administrative expenses and construction	60	......	60	1,054	......	1,054	1,234	......	1,234
Payment to railroad retirement account	......	......	......	......	......	......	......	......	......
Interest expense on interfund borrowings	......	......	......	......	......	......	......	......	......
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Total—FOASI trust fund	23,252	......	23,252	184,321	......	184,321	176,590	......	176,590
Federal disability insurance trust fund:									
Benefit payments	3,180	......	3,180	24,168	......	24,168	22,052	......	22,052
Administrative expenses and construction	95	......	95	662	......	662	591	......	591
Payment to railroad retirement account	......	......	......	......	......	......	......	......	......
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Total—FDI trust fund	3,275	......	3,275	24,829	......	24,829	22,643	......	22,643
Proprietary receipts from the public	......	2	−2	......	10	−10	......	(* *)	(* *)
Intrabudgetary transactions[1]	−7	......	−7	−4,140	......	−4,140	−4,636	......	−4,636
Total—Department of Health and Human Services, Social Security(off-budget)	**26,520**	**2**	**26,518**	**205,011**	**10**	**205,001**	**194,598**	**(* *)**	**194,597**
Department of Housing and Urban Development:									
Housing programs:									
Public enterprise funds	15	13	3	101	87	14	51	47	4
Credit accounts:									
Federal housing administration fund	−271	−76	−195	3,884	4,162	−277	3,811	3,318	493
Housing for the elderly or handicapped fund	−12	61	−73	696	469	227	791	430	361
Other	34	......	34	293	(* *)	293	198	(* *)	198
Rent supplement payments	15	......	15	48	......	48	37	......	37
Homeownership assistance	9	......	9	70	......	70	58	......	58
Rental housing assistance	59	......	59	439	......	439	437	......	437
Rental housing development grants	(* *)	......	(* *)	5	......	5	13	......	13
Low-rent public housing	113	......	113	545	......	545	564	......	564
Public housing grants	279	......	279	2,155	......	2,155	1,592	......	1,592
College housing grants	2	......	2	13	......	13	13	......	13
Lower income housing assistance	876	......	876	6,980	......	6,980	7,176	......	7,176
Section 8 contract renewals	291	......	291	2,285	......	2,285	1,568	......	1,568
Other	7	......	7	42	......	42	14	......	14
Total—Housing programs	1,417	−2	1,419	17,555	4,718	12,837	16,324	3,795	12,529
Public and Indian Housing programs:									
Low-rent public housing—Loans and other expenses	1	(* *)	1	293	195	98	137	24	114
Payments for operation of low-income housing projects	262	......	262	1,698	......	1,698	1,583	......	1,583
Community Partnerships Against Crime	16	......	16	107	......	107	66	......	66
Other	......	......	......	......	......	......	......	......	......
Total—Public and Indian Housing programs	279	(* *)	279	2,098	195	1,903	1,786	24	1,762
Government National Mortgage Association:									
Management and liquidating functions fund	......	......	......	(* *)	1	−1	......	2	−2
Guarantees of mortgage-backed securities	64	95	−30	697	1,029	−332	761	1,099	−337
Total—Government National Mortgage Association	64	95	−30	697	1,029	−333	761	1,101	−340
Community Planning and Development:									
Community Development Grants	288	......	288	2,261	......	2,261	2,077	......	2,077
Home investment partnerships program	73	......	73	438	......	438	84	......	84
Other	20	9	11	192	87	106	193	75	118
Total—Community Planning and Development	381	9	372	2,891	87	2,804	2,355	75	2,280
Management and Administration	28	......	28	337	......	337	364	......	364
Other	2	......	2	23	......	23	23	......	23
Proprietary receipts from the public	......	22	−22	......	175	−175	......	204	−204
Offsetting governmental receipts	......	......	......	......	5	−5	......	3	−3
Total—Department of Housing and Urban Development	**2,172**	**124**	**2,048**	**23,601**	**6,210**	**17,391**	**21,613**	**5,202**	**16,411**

Table 5. Outlays of the U.S. Government, May 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Interior:									
Land and minerals management:									
Bureau of Land Management:									
Management of lands and resources	47	......	47	437	......	437	422	......	422
Other	15	......	15	153	......	153	152	......	152
Minerals Management Service	54	......	54	513	......	513	465	......	465
Office of Surface Mining Reclamation and Enforcement	23	......	23	192	......	192	195	......	195
Total—Land and minerals management	139	......	139	1,296	......	1,296	1,234	......	1,234
Water and science:									
Bureau of Reclamation:									
Construction program	15	......	15	191	......	191	174	......	174
Operation and maintenance	28	......	28	179	......	179	185	......	185
Other	43	6	38	289	109	180	317	96	221
Central utah project	(* *)	......	(* *)	20	......	20	......	......	......
Geological Survey	47	......	47	404	......	404	421	......	421
Bureau of Mines	16	2	13	127	18	109	135	19	115
Total—Water and science	149	8	141	1,209	127	1,083	1,233	116	1,117
Fish and wildlife and parks:									
United States Fish and Wildlife Service	85	......	85	811	......	811	854	......	854
National Biological Survey	9	......	9	59	......	59	......	......	......
National Park Service	107	......	107	960	......	960	952	......	952
Total—Fish and wildlife and parks	200	......	200	1,830	......	1,830	1,805	......	1,805
Bureau of Indian Affairs:									
Operation of Indian programs	45	......	45	886	......	886	910	......	910
Indian tribal funds	19	......	19	190	......	190	112	......	112
Other	15	(* *)	14	320	6	314	199	14	185
Total—Bureau of Indian Affairs	78	(* *)	78	1,396	6	1,389	1,221	14	1,207
Territorial and international affairs	13	......	13	205	......	205	173	......	173
Departmental offices	17	......	17	97	......	97	91	......	91
Proprietary receipts from the public	......	138	−138	......	1,324	−1,324	......	1,322	−1,322
Intrabudgetary transactions	−2	......	−2	−201	......	−201	−89	......	−89
Offsetting governmental receipts	......	......	......	......	(* *)	(* *)	......	(* *)	(* *)
Total—Department of the Interior	**595**	**147**	**448**	**5,832**	**1,457**	**4,375**	**5,668**	**1,452**	**4,216**
Department of Justice:									
Legal activities	159	......	159	1,608	......	1,608	1,952	......	1,952
Federal Bureau of Investigation	159	......	159	1,432	......	1,432	1,358	......	1,358
Drug Enforcement Administration	49	......	49	516	......	516	530	......	530
Immigration and Naturalization Service	155	......	155	990	......	990	1,000	......	1,000
Federal Prison System	195	11	185	1,579	78	1,501	1,442	63	1,379
Office of Justice Programs	100	......	100	579	......	579	633	......	633
Other	103	......	103	401	......	401	668	......	668
Intrabudgetary transactions	−4	......	−4	−23	......	−23	−190	......	−190
Offsetting governmental receipts	......	70	−70	......	358	−358	......	333	−333
Total—Department of Justice	**917**	**81**	**836**	**7,082**	**437**	**6,645**	**7,392**	**396**	**6,997**
Department of Labor:									
Employment and Training Administration:									
Training and employment services	333	......	333	2,554	......	2,554	2,482	......	2,482
Community Service Employment for Older Americans	36	......	36	257	......	257	263	......	263
Federal unemployment benefits and allowances	1	......	1	95	......	95	103	......	103
State unemployment insurance and employment service operations	−20	......	−20	144	......	144	−1	......	−1
Payments to the unemployment trust fund	......	......	......	......	......	......	7,050	......	7,050
Advances to the unemployment trust fund and other funds	19	......	19	2,547	......	2,547	873	......	873

able 5. Outlays of the U.S. Government, May 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
lepartment of Labor:—Continued									
Unemployment trust fund:									
Federal-State unemployment insurance:									
State unemployment benefits	1,815	......	1,815	20,012	......	20,012	24,699	......	24,699
State administrative expenses	282	......	282	2,090	......	2,090	2,272	......	2,272
Federal administrative expenses	7	......	7	132	......	132	81	......	81
Veterans employment and training	18	......	18	125	......	125	114	......	114
Repayment of advances from the general fund	......	......	......	......	......	......	......	......	......
Railroad unemployment insurance	4	......	4	49	......	49	53	......	53
Other	2	......	2	14	......	14	14	......	14
Total—Unemployment trust fund	2,128	......	2,128	22,422	......	22,422	27,232	......	27,232
Other	5	......	5	58	......	58	70	......	70
Total—Employment and Training Administration	2,503	......	2,503	28,076	......	28,076	38,071	......	38,071
Pension Benefit Guaranty Corporation	71	138	−68	844	1,124	−281	551	1,203	−651
Employment Standards Administration:									
Salaries and expenses	19	......	19	154	......	154	153	......	153
Special benefits	151	......	151	33	......	33	104	......	104
Black lung disability trust fund	50	......	50	401	......	401	408	......	408
Other	10	......	10	83	......	83	81	......	81
Occupational Safety and Health Administration	25	......	25	194	......	194	188	......	188
Bureau of Labor Statistics	22	......	22	176	......	176	191	......	191
Other	48	......	48	314	......	314	299	......	299
Proprietary receipts from the public	......	(* *)	(* *)	......	2	−2	......	2	−2
Intrabudgetary transactions	−79	......	−79	−2,976	......	−2,976	−8,648	......	−8,648
Total—Department of Labor	**2,818**	**139**	**2,679**	**27,299**	**1,126**	**26,173**	**31,399**	**1,204**	**30,194**
Department of State:									
Administration of Foreign Affairs:									
Salaries and expenses	79	......	79	1,209	......	1,209	1,443	......	1,443
Acquisition and maintenance of buildings abroad	62	......	62	387	......	387	311	......	311
Payment to Foreign Service retirement and disability fund	......	......	......	125	......	125	119	......	119
Foreign Service retirement and disability fund	32	......	32	265	......	265	276	......	276
Other	4	......	4	75	......	75	68	......	68
Total—Administration of Foreign Affairs	177	......	177	2,060	......	2,060	2,218	......	2,218
International organizations and Conferences	25	......	25	1,182	......	1,182	1,118	......	1,118
Migration and refugee assistance	97	......	97	475	......	475	492	......	492
International narcotics control	15	......	15	79	......	79	93	......	93
Other	7	......	7	45	......	45	48	......	48
Proprietary receipts from the public	......	......	......	......	......	......	......	(* *)	(* *)
Intrabudgetary transactions	(* *)	......	(* *)	−176	......	−176	−165	......	−165
Offsetting governmental receipts	......	......	......	......	......	......	......	......	......
Total—Department of State	**320**	......	**320**	**3,664**	......	**3,664**	**3,803**	**(* *)**	**3,803**
Department of Transportation:									
Federal Highway Administration:									
Highway trust fund:									
Federal-aid highways	1,430	......	1,430	11,092	......	11,092	9,335	......	9,335
Other	4	......	4	85	......	85	93	......	93
Other programs	22	......	22	162	......	162	147	......	147
Total—Federal Highway Administration	1,456	......	1,456	11,339	......	11,339	9,576	......	9,576
National Highway Traffic Safety Administration	19	......	19	169	......	169	158	......	158
Federal Railroad Administration:									
Grants to National Railroad Passenger Corporation	......	......	......	425	......	425	345	......	345
Other	31	1	29	245	8	237	239	11	228
Total—Federal Railroad Administration	31	1	29	670	8	662	584	11	573

Table 5. Outlays of the U.S. Government, May 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Transportation:—Continued									
Federal Transit Administration:									
Formula grants	−149	......	−149	−63	......	−63	1,234	......	1,234
Discretionary grants	167	......	167	1,077	......	1,077	818	......	818
Other	312	......	312	2,023	......	2,023	274	......	274
Total—Federal Transit Administration	329	......	329	3,037	......	3,037	2,326	......	2,326
Federal Aviation Administration:									
Operations	167	......	167	1,684	......	1,684	1,491	......	1,491
Airport and airway trust fund:									
Grants-in-aid for airports	102	......	102	1,027	......	1,027	1,234	......	1,234
Facilities and equipment	198	......	198	1,473	......	1,473	1,293	......	1,293
Research, engineering and development	19	......	19	141	......	141	123	......	123
Operations	191	......	191	1,434	......	1,434	1,520	......	1,520
Total—Airport and airway trust fund	510	......	510	4,074	......	4,074	4,169	......	4,169
Other	(* *)	(* *)	(* *)	(* *)	1	−1	(* *)	2	−1
Total—Federal Aviation Administration	676	(* *)	676	5,759	1	5,758	5,661	2	5,659
Coast Guard:									
Operating expenses	168	......	168	1,603	......	1,603	1,606	......	1,606
Acquisition, construction, and improvements	37	......	37	219	......	219	174	......	174
Retired pay	59	......	59	333	......	333	334	......	334
Other	30	(* *)	30	229	4	225	189	4	185
Total—Coast Guard	295	(* *)	294	2,385	4	2,381	2,303	4	2,299
Maritime Administration	75	4	72	584	247	337	893	362	532
Other	29	1	28	263	4	259	259	8	251
Proprietary receipts from the public	......	(* *)	(* *)	......	3	−3	......	5	−5
Intrabudgetary transactions	(* *)	......	(* *)	10	......	10	−3	......	−3
Offsetting governmental receipts	......	1	−1	......	5	−5	......	50	−50
Total—Department of Transportation	**2,910**	**7**	**2,903**	**24,216**	**272**	**23,944**	**21,756**	**441**	**21,315**
Department of the Treasury:									
Departmental offices:									
Exchange stabilization fund	−202	1	−203	−766	8	−773	−821	9	−830
Other	47	......	47	116	......	116	142	......	142
Financial Management Service:									
Salaries and expenses	21	......	21	161	......	161	151	......	151
Payment to the Resolution Funding Corporation	......	......	......	1,751	......	1,751	1,751	......	1,751
Claims, judgements, and relief acts	102	......	102	345	......	345	372	......	372
Net interest paid to loan guarantee financing accounts	......	......	......	2	......	2	20	......	20
Other	13	......	13	95	......	95	94	......	94
Total—Financial Management Service	136	......	136	2,354	......	2,354	2,387	......	2,387
Federal Financing Bank	−114	......	−114	−216	......	−216	−216	......	−216
Bureau of Alcohol, Tobacco and Firearms:									
Salaries and expenses	28	......	28	257	......	257	241	......	241
Internal revenue collections for Puerto Rico	15	......	15	131	......	131	128	......	128
United States Customs Service	179	......	179	1,290	......	1,290	1,174	......	1,174
Bureau of Engraving and Printing	(* *)	......	(* *)	5	......	5	35	......	35
United States Mint	−7	......	−7	−42	......	−42	−3	......	−3
Bureau of the Public Debt	13	......	13	182	......	182	188	......	188
Internal Revenue Service:									
Processing tax returns and assistance	158	......	158	1,122	......	1,122	1,064	......	1,064
Tax law enforcement	302	......	302	2,527	......	2,527	2,534	......	2,534
Information systems	104	......	104	762	......	762	814	......	814
Payment where earned income credit exceeds liability for tax	728	......	728	10,599	......	10,599	8,505	......	8,505
Health insurance supplement to earned income credit	71	......	71	421	......	421	608	......	608
Refunding internal revenue collections, interest	231	......	231	1,737	......	1,737	1,192	......	1,192
Other	12	......	12	103	......	103	102	(* *)	102
Total—Internal Revenue Service	1,606	......	1,606	17,271	......	17,271	14,818	(* *)	14,818

Table 5. Outlays of the U.S. Government, May 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Treasury:—Continued									
United States Secret Service	32	......	32	326	......	326	346	......	346
Comptroller of the Currency	28	15	13	251	224	28	230	206	24
Office of Thrift Supervison	13	1	12	117	87	31	142	110	32
Interest on the public debt:									
Public issues (accrual basis)	17,612	......	17,612	136,554	......	136,554	137,284	......	137,284
Special issues (cash basis)	6,332	......	6,332	50,556	......	50,556	49,306	......	49,306
Total—Interest on the public debt	23,943	......	23,943	187,110	......	187,110	186,590	......	186,590
Other	4	......	4	39	......	39	42	......	42
Proprietary receipts from the public	......	194	−194	......	2,039	−2,039	......	1,348	−1,348
Receipts from off-budget federal entities	......	......	......	......	......	......	......	......	......
Intrabudgetary transactions	−820	......	−820	−7,256	......	−7,256	−8,749	......	−8,749
Offsetting governmental receipts	......	83	−83	......	508	−508	......	481	−481
Total—Department of the Treasury	**24,903**	**294**	**24,609**	**201,170**	**2,865**	**198,304**	**196,674**	**2,154**	**194,519**
Department of Veterans Affairs:									
Veterans Health Administration:									
Medical care	1,192	......	1,192	9,909	......	9,909	9,354	......	9,354
Other	40	22	18	748	178	570	403	168	235
Veterans Benefits Administration:									
Public enterprise funds:									
Guaranty and indemnity fund	114	68	46	996	479	517	768	250	518
Loan guaranty revolving fund	41	40	1	413	320	93	531	365	166
Other	18	8	10	274	160	115	311	265	45
Compensation and pensions	97	......	97	11,396	......	11,396	11,240	......	11,240
Readjustment benefits	79	......	79	817	......	817	601	......	601
Post-Vietnam era veterans education account	2	......	2	59	......	59	77	......	77
Insurance funds:									
National service life	98	......	98	823	......	823	730	......	730
United States government life	2	......	2	12	......	12	13	......	13
Veterans special life	10	3	7	90	95	−5	86	100	−14
Other	3	......	3	−3	......	−3	−1	......	−1
Total—Veterans Benefits Administration	464	119	346	14,877	1,053	13,824	14,356	981	13,375
Construction	55	......	55	448	(* *)	448	393	(* *)	393
Departmental administration	119	......	119	697	......	697	736	......	736
Proprietary receipts from the public:									
National service life	......	25	−25	......	233	−233	......	265	−265
United States government life	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Other	......	60	−60	......	1,218	−1,218	......	505	−505
Intrabudgetary transactions	(* *)	......	(* *)	−27	......	−27	−22	......	−22
Total—Department of Veterans Affairs	**1,870**	**225**	**1,645**	**26,651**	**2,682**	**23,969**	**25,221**	**1,920**	**23,301**
Environmental Protection Agency:									
Program and research operations	63	......	63	561	......	561	589	......	589
Abatement, control, and compliance	92	......	92	819	......	819	822	......	822
Water infrastructure financing	155	......	155	1,262	......	1,262	1,315	......	1,315
Hazardous substance superfund	105	......	105	919	......	919	919	......	919
Other	47	(* *)	47	537	3	534	519	17	502
Proprietary receipts from the public	......	23	−23	......	136	−136	......	112	−112
Intrabudgetary transactions	......	......	......	−250	......	−250	−250	......	−250
Offsetting governmental receipts	......	1	−1	......	6	−6	......	7	−7
Total—Environmental Protection Agency	**463**	**24**	**439**	**3,847**	**145**	**3,702**	**3,913**	**135**	**3,778**
General Services Administration:									
Real property activities	352	......	352	−211	......	−211	142	......	142
Personal property activities	33	......	33	−10	......	−10	23	......	23
Information Resources Management Service	6	......	6	57	......	57	16	......	16
Other	26	......	26	86	......	86	87	......	87
Proprietary receipts from the public	......	(* *)	(* *)	......	3	−3	......	3	−3
Total—General Services Administration	**417**	**(* *)**	**417**	**−79**	**3**	**−82**	**268**	**3**	**265**

Table 5. Outlays of the U.S. Government, May 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
National Aeronautics and Space Administration:									
Research and development	508	......	508	4,309	......	4,309	4,621	......	4,621
Space flight, control, and data communications	409	......	409	3,224	......	3,224	3,414	......	3,414
Construction of facilities	30	......	30	265	......	265	352	......	352
Research and program management	161	......	161	1,091	......	1,091	1,056	......	1,056
Other	1	......	1	10	......	10	10	......	10
Total—National Aeronautics and Space Administration	**1,110**	......	**1,110**	**8,899**	......	**8,899**	**9,452**	......	**9,452**
Office of Personnel Management:									
Government payment for annuitants, employees health and life insurance benefits	379	......	379	2,634	......	2,634	2,422	......	2,422
Payment to civil service retirement and disability fund	......	......	......	......	......	......	......	......	......
Civil service retirement and disability fund	3,043	......	3,043	23,967	......	23,967	23,078	......	23,078
Employees health benefits fund	1,268	1,356	−88	10,041	10,532	−491	9,526	10,117	−590
Employees life insurance fund	114	439	−325	910	1,825	−915	874	1,700	−826
Retired employees health benefits fund	1	1	(* *)	5	5	(* *)	6	6	(* *)
Other	6	......	6	102	......	102	57	......	57
Intrabudgetary transactions:									
Civil service retirement and disability fund:									
General fund contributions	......	......	......	......	......	......	......	......	......
Other	−3	......	−3	−23	......	−23	−29	......	−29
Total—Office of Personnel Management	**4,809**	**1,797**	**3,012**	**37,635**	**12,362**	**25,273**	**35,935**	**11,822**	**24,113**
Small Business Administration:									
Public enterprise funds:									
Business loan fund	33	29	4	375	271	105	752	485	267
Disaster loan fund	23	20	2	130	197	−67	288	331	−43
Other	1	1	(* *)	16	8	7	31	9	21
Other	63	(* *)	63	369	(* *)	369	336	(* *)	336
Total—Small Business Administration	**120**	**50**	**70**	**891**	**476**	**414**	**1,407**	**826**	**581**
Other independent agencies:									
Action	17	......	17	109	......	109	135	......	135
Board for International Broadcasting	14	......	14	129	......	129	163	......	163
Corporation for National and Community Service	4	......	4	17	......	17	......	......	......
Corporation for Public Broadcasting	......	......	......	275	......	275	319	......	319
District of Columbia:									
Federal payment	......	......	......	698	......	698	698	......	698
Other	......	......	......	3	12	−9	3	24	−21
Equal Employment Opportunity Commission	17	(* *)	16	156	(* *)	155	149	(* *)	149
Export-Import Bank of the United States	39	72	−33	681	1,408	−727	787	1,380	−593
Federal Communications Commission	10	4	6	95	27	68	86	26	60
Federal Deposit Insurance Corporation:									
Bank insurance fund	148	530	−382	1,760	8,129	−6,368	6,335	11,277	−4,942
Savings association insurance fund	3	19	−16	17	551	−534	7	438	−431
FSLIC resolution fund	326	119	207	1,535	2,374	−839	2,163	963	1,200
Affordable housing and bank enterprise	4	......	4	3	......	3	1	......	1
Federal Emergency Management Agency:									
Public enterprise funds	25	32	−8	282	245	37	526	203	323
Disaster relief	267	......	267	2,434	......	2,434	1,317	......	1,317
Emergency management planning and assistance	14	......	14	153	......	153	162	......	162
Other	5	......	5	168	......	168	215	......	215
Federal Trade Commission	8	......	8	59	......	59	58	......	58
Interstate Commerce Commission	2	......	2	28	......	28	28	......	28
Legal Services Corporation	33	......	33	264	......	264	268	......	268
National Archives and Records Administration	22	(* *)	22	152	(* *)	152	134	(* *)	134
National Credit Union Administration:									
Credit union share insurance fund	−26	2	−28	−3	220	−223	24	328	−303
Central liquidity facility	(* *)	......	(* *)	54	54	(* *)	75	75	(* *)
Other	8	(* *)	8	23	48	−25	22	45	−23

Table 5. Outlays of the U.S. Government, May 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Other independent agencies:—Continued									
National Endowment for the Arts	12	......	12	114	......	114	115	......	115
National Endowment for the Humanities	15	......	15	105	......	105	99	......	99
National Labor Relations Board	12	......	12	116	......	116	114	......	114
National Science Foundation	211	......	211	1,593	......	1,593	1,490	......	1,490
Nuclear Regulatory Commission	38	52	−14	353	337	15	317	324	−7
Panama Canal Commission	45	45	(* *)	346	375	−29	346	364	−19
Postal Service:									
Public enterprise funds (off-budget)	3,755	[2]3,695	60	31,188	33,146	−1,957	[3]30,399	[3]32,243	−1,844
Payment to the Postal Service fund	......	......	......	107	......	107	130	......	130
Railroad Retirement Board:									
Federal windfall subsidy	22	......	22	182	......	182	195	......	195
Federal payments to the railroad retirement accounts	(* *)	......	(* *)	38	......	38	44	......	44
Rail industry pension fund:									
Advances from FOASDI fund	−91	......	−91	−723	......	−723	−712	......	−712
OASDI certifications	91	......	91	723	......	723	712	......	712
Administrative expenses	5	......	5	48	......	48	47	......	47
Interest on refunds of taxes	(* *)	......	(* *)	16	......	16	5	......	5
Other	1	......	1	6	......	6	4	......	4
Intrabudgetary transactions:									
Payments from other funds to the railroad retirement trust funds	......	......	......	......	......	......	......	......	......
Other	......	......	......	−38	......	−38	−44	......	−44
Supplemental annuity pension fund	250	......	250	1,952	......	1,952	1,924	......	1,924
Railroad Social Security equivalent benefit account	400	......	400	3,188	......	3,188	3,119	......	3,119
Other	......	......	......	(* *)	......	(* *)	3	......	3
Total—Railroad Retirement Board	679	......	679	5,392	......	5,392	5,297	......	5,297
Resolution Trust Corporation	2,892	1,116	1,777	12,297	9,619	2,678	9,308	23,640	−14,332
Securities and Exchange Commission	8	......	8	34	......	34	67	......	67
Smithsonian Institution	42	......	42	238	......	238	260	......	260
Tennessee Valley Authority	1,004	791	213	6,728	5,814	914	5,677	4,210	1,467
United States Information Agency	92	(* *)	92	735	(* *)	735	685	(* *)	685
Other	205	141	64	1,663	879	784	783	123	659
Total—Other independent agencies	**9,951**	**6,619**	**3,332**	**70,101**	**63,237**	**6,863**	**68,764**	**75,664**	**−6,901**
Undistributed offsetting receipts:									
Other interest	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Employer share, employee retirement:									
Legislative Branch:									
United States Tax Court:									
Tax court judges survivors annuity fund	......	......	......	(* *)	......	(* *)	(* *)	......	(* *)
The Judiciary:									
Judicial survivors annuity fund	......	......	......	......	......	......	......	......	......
Department of Defense—Civil:									
Military retirement fund	−1,062	......	−1,062	−8,535	......	−8,535	−8,773	......	−8,773
Department of Health and Human Services, except Social Security:									
Federal hospital insurance trust fund:									
Federal employer contributions	−143	......	−143	−1,201	......	−1,201	−1,190	......	−1,190
Postal Service employer contributions	−50	......	−50	−345	......	−345	−304	......	−304
Payments for military service credits	......	......	......	......	......	......	......	......	......
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund:									
Federal employer contributions	−464	......	−464	−3,592	......	−3,592	−3,547	......	−3,547
Payments for military service credits	......	......	......	......	......	......	......	......	......
Federal disability insurance trust fund:									
Federal employer contributions	−50	......	−50	−386	......	−386	−379	......	−379
Payments for military service credits	......	......	......	......	......	......	......	......	......
Department of State:									
Foreign Service retirement and disability fund	−9	......	−9	−73	......	−73	−72	......	−72
Office of Personnel Management:									
Civil service retirement and disability fund	−780	......	−780	−6,548	......	−6,548	−6,332	......	−6,332
Independent agencies:									
Court of veterans appeals retirement fund	......	......	......	......	......	......	......	......	......
Total—Employer share, employee retirement	−2,557	......	−2,557	−20,682	......	−20,682	−20,597	......	−20,597

Table 5. Outlays of the U.S. Government, May 1994 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Undistributed offsetting receipts:—Continued									
Interest received by trust funds:									
The Judiciary:									
Judicial survivors annuity fund	−4	......	−4	−13	......	−13	−13	......	−13
Department of Defense—Civil:									
Corps of Engineers	−1	......	−1	−9	......	−9	−5	......	−5
Military retirement fund	−4,967	......	−4,967	−10,224	......	−10,224	−9,813	......	−9,813
Education benefits fund	−16	......	−16	−41	......	−41	−46	......	−46
Soldiers' and airmen's home permanent fund	(* *)	......	(* *)	−6	......	−6	−15	......	−15
Other	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Department of Health and Human Services, except Social Security:									
Federal hospital insurance trust fund	−24	......	−24	−5,364	......	−5,364	−5,249	......	−5,249
Federal supplementary medical insurance trust fund	−19	......	−19	−1,090	......	−1,090	−943	......	−943
Department of Health and Human Services, Social Security (off-budget):									
Federal old-age and survivors insurance trust fund	−185	......	−185	−14,294	......	−14,294	−12,650	......	−12,650
Federal disability insurance trust fund	−8	......	−8	−412	......	−412	−545	......	−545
Department of Labor:									
Unemployment trust fund	−15	......	−15	−1,347	......	−1,347	−1,398	......	−1,398
Department of State:									
Foreign Service retirement and disability fund	−1	......	−1	−281	......	−281	−269	......	−269
Department of Transportation:									
Highway trust fund	−10	......	−10	−732	......	−732	−761	......	−761
Airport and airway trust fund	−1	......	−1	−425	......	−425	−564	......	−564
Oil spill liability trust fund	−2	......	−2	−6	......	−6	−43	......	−43
Department of Veterans Affairs:									
National service life insurance fund	−2	......	−2	−541	......	−541	−543	......	−543
United States government life Insurance Fund	(* *)	......	(* *)	−5	......	−5	−6	......	−6
Environmental Protection Agency	(* *)	......	(* *)	−1	......	−1	−1	......	−1
National Aeronautics and Space Administration	(* *)	......	(* *)	−1	......	−1	−1	......	−1
Office of Personnel Management:									
Civil service retirement and disability fund	−101	......	−101	−13,120	......	−13,120	−12,565	......	−12,565
Independent agencies:									
Railroad Retirement Board	−93	......	−93	−426	......	−426	−676	......	−676
Other	−3	......	−3	−10	......	−10	−10	......	−10
Other	−15	......	−15	−113	......	−113	−14	......	−14
Total—Interest received by trust funds	−5,467	......	−5,467	−48,463	......	−48,463	−46,128	......	−46,128
Rents and royalties on the outer continental shelf lands	......	475	−475	......	2,040	−2,040	......	1,621	−1,621
Sale of major assets	......	......	......	......	......	......	......	......	......
Total—Undistributed offsetting receipts	**−8,024**	**475**	**−8,499**	**−69,144**	**2,040**	**−71,184**	**−66,725**	**1,621**	**−68,346**
Total outlays	**130,149**	**14,549**	**115,600**	**1,098,330**	**132,039**	**966,291**	**1,081,047**	**138,995**	**942,052**
Total on-budget	**100,580**	**10,852**	**89,728**	**880,815**	**98,884**	**781,931**	**873,172**	**106,752**	**766,420**
Total off-budget	**29,568**	**3,697**	**25,871**	**217,515**	**33,155**	**184,360**	**207,875**	**32,244**	**175,632**
Total surplus (+) or deficit			**−32,054**			**−165,289**			**−212,266**
Total on-budget			**−34,362**			**−202,091**			**−241,635**
Total off-budget			**+2,308**			**+36,802**			**+29,369**

MEMORANDUM

Receipts offset against outlays [$ millions]

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	31,810	27,731
Receipts from off-budget federal entities	......	......
Intrabudgetary transactions	123,413	132,351
Governmental receipts	1,334	1,263
Total receipts offset against outlays	156,557	161,344

[1]Includes FICA and SECA tax credits, non-contributory military service credits, special benefits the aged, and credit for unnegotiated OASI benefit checks.

[2]The Postal Service accounting is composed of thirteen 28-day accounting periods. To nform with the MTS calendar-month reporting basis used by all other Federal agencies, the MTS lects USPS results through 5/30 and estimates for $152 million for 5/31.

[3]Outlays for the Postal Service have been increased in February 1993 by $301 million and in April 1993 by $274 million to record money orders issued, previously reported as offsetting receipts; and to record outlays previously reported as a deposit fund; respectively.

... No Transactions.

(* *) Less than $500,000

Note: Details may not add to totals due to rounding

Table 6. Means of Financing the Deficit or Disposition of Surplus by the U.S. Government, May 1994 and Other Periods

[$ millions]

Assets and Liabilities Directly Related to Budget Off-budget Activity	Net Transactions (−) denotes net reduction of either liability or asset accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Liability accounts:						
Borrowing from the public:						
Public debt securities, issued under general Financing authorities:						
Obligations of the United States, issued by:						
United States Treasury	40,593	197,807	231,657	4,396,489	4,553,704	4,594,296
Federal Financing Bank	......	......	......	15,000	15,000	15,000
Total, public debt securities	40,593	197,807	231,657	4,411,489	4,568,704	4,609,296
Plus premium on public debt securities	−19	−9	370	1,373	1,383	1,364
Less discount on public debt securities	611	−10,843	4,700	86,397	74,943	75,554
Total public debt securities net of Premium and discount	39,963	208,641	227,328	4,326,466	4,495,145	4,535,108
Agency securities, issued under special financing authorities (see Schedule B. for other Agency borrowing, see Schedule C)	951	2,651	2,466	24,682	26,382	27,334
Total federal securities	40,914	211,293	229,794	4,351,149	4,521,527	4,562,441
Deduct:						
Federal securities held as investments of government accounts (see Schedule D)	13,316	52,945	52,078	1,116,740	1,156,370	1,169,686
Less discount on federal securities held as investments of government accounts	50	−12,011	135	12,709	648	698
Net federal securities held as investments of government accounts	13,265	64,956	51,943	1,104,032	1,155,722	1,168,988
Total borrowing from the public	27,649	146,337	177,852	3,247,117	3,365,804	3,393,453
Accrued interest payable to the public	−17,824	−10,100	−6,908	43,819	51,543	33,719
Allocations of special drawing rights	−20	−5	−217	6,950	6,964	6,944
Deposit funds	−1,076	−1,593	608	[1]6,249	5,732	4,656
Miscellaneous liability accounts (includes checks Outstanding etc.)	−1,170	7,955	6,095	[1]3,228	12,354	11,184
Total liability accounts	**7,559**	**142,594**	**177,430**	**3,307,362**	**3,442,397**	**3,449,957**
Asset accounts (deduct)						
Cash and monetary assets:[2]						
U.S. Treasury operating cash:						
Federal Reserve account	−2,290	−11,614	−18,800	17,289	7,965	5,675
Tax and loan note accounts	−19,247	−13,698	−19,689	35,217	40,766	21,519
Balance	−21,537	−25,312	−38,489	52,506	48,731	27,194
Special drawing rights:						
Total holdings	82	319	−2,964	9,203	9,440	9,522
SDR certificates issued to Federal Reserve banks	......	......	2,000	−8,018	−8,018	−8,018
Balance	82	319	−964	1,185	1,422	1,504
Reserve position on the U.S. quota in the IMF:						
U.S. subscription to International Monetary Fund:						
Direct quota payments	......	......	12,063	31,762	31,762	31,762
Maintenance of value adjustments	−107	−28	−561	5,864	5,943	5,835
Letter of credit issued to IMF	−28	−251	−9,375	−25,514	−25,737	−25,765
Dollar deposits with the IMF	6	(* *)	−32	−98	−103	−98
Receivable/Payable (−) for interim maintenance of value adjustments	74	17	320	90	33	106
Balance	−56	−262	2,414	12,103	11,897	11,841
Loans to International Monetary Fund	......	......	......	(* *)	(* *)	(* *)
Other cash and monetary assets	−817	2,851	1,587	22,414	26,081	25,265
Total cash and monetary assets	−22,329	−22,404	−35,451	88,208	88,132	65,804
Net activity, guaranteed loan financing	−125	−2,222	−2,395	−6,320	−8,417	−8,542
Net activity, direct loan financing	680	3,015	2,515	6,862	9,197	9,877
Miscellaneous asset accounts	−2,668	−636	714	−636	1,396	−1,272
Total asset accounts	**−24,441**	**−22,247**	**−34,617**	**88,114**	**90,308**	**65,867**
Excess of liabilities (+) or assets (−)	**+32,001**	**+164,842**	**+212,047**	**+3,219,248**	**+3,352,090**	**+3,384,090**
Transactions not applied to current year's surplus or deficit (see Schedule a for Details)	53	447	220	......	394	447
Total budget and off-budget federal entities (financing of deficit (+) or disposition of surplus ( ))	**+32,054**	**+165,289**	**+212,266**	**+3,219,248**	**+3,352,483**	**+3,384,537**

[1]Outlays for the Postal Service have been increased in February 1993 by $301 million and in April 1993 by $274 million to record money orders issued, previously reported as offsetting receipts, and to record outlays previously reported as a deposit fund, respectively.

[2]Major sources of information used to determine Treasury's operating cash income include the Daily Balance Wires from Federal Reserve Banks, reporting from the Bureau of Public Debt, electronic transfers through the Treasury Financial Communication System and reconciling wires from Internal Revenue Centers. Operating cash is presented on a modified cash basis, deposits are reflected as received and withdrawals are reflected as processed.

... No Transactions.

(* *) Less than $500,000

Note: Details may not add to totals due to rounding

Table 6. Schedule A—Analysis of Change in Excess of Liabilities of the U.S. Government, May 1994 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year to Date	
		This Year	Prior Year
Excess of liabilities beginning of period:			
Based on composition of unified budget in preceding period	3,351,515	3,218,965	2,964,066
Adjustments during current fiscal year for changes in composition of unified budget:			
Reclassification of the Disaster Assistance Liquidating Account, FEMA, to a budgetary status	......	......	(* *)
Revisions by federal agencies to the prior budget results	575	284	101
Reclassification of Thrift Savings Plan Clearing Accounts to a non-budgetary status	......	......	(* *)
Reclassification of Deposit in Transit Differences (Suspense) Clearing Accounts to a budgetary status	......	......	174
Excess of liabilities beginning of period (current basis)	3,352,090	3,219,248	2,964,341
Budget surplus (–) or deficit:			
Based on composition of unified budget in prior fiscal yr	32,054	165,289	212,266
Changes in composition of unified budget	......	......	......
Total surplus (–) or deficit (Table 2)	32,054	165,289	212,266
Total-on-budget (Table 2)	34,362	202,091	241,635
Total-off-budget (Table 2)	–2,308	–36,802	–29,369
Transactions not applied to current year's surplus or deficit:			
Seigniorage	–53	–447	–220
Profit on sale of gold	......	(* *)	......
Total-transactions not applied to current year's Surplus or deficit	–53	–447	–220
Excess of liabilities close of period	**3,384,090**	**3,384,090**	**3,176,387**

Table 6. Schedule B—Securities Issued by Federal Agencies Under Special Financing Authorities, May 1994 and Other Periods

[$ millions]

Classification	Net Transactions (–) denotes net reduction of liability accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Agency securities, issued under special financing authorities:						
Obligations of the United States, issued by:						
Export-Import Bank of the United States	......	......	......	(* *)	(* *)	(* *)
Federal Deposit Insurance Corporation:						
Bank insurance fund	......	......	......	93	93	93
FSLIC resolution fund	......	–145	–194	943	797	797
Obligations guaranteed by the United States, issued by:						
Department of Defense:						
Family housing mortgages	......	(* *)	(* *)	7	6	6
Department of Housing and Urban Development:						
Federal Housing Administration	8	–82	–30	213	123	131
Department of the Interior:						
Bureau of Land Management	......	......	......	13	13	13
Department of Transportation:						
Coast Guard:						
Family housing mortgages	......	......	......	(* *)	(* *)	(* *)
Obligations not guaranteed by the United States, issued by:						
Legislative Branch:						
Architect of the Capitol	1	10	9	176	185	187
Independent agencies:						
Farm Credit System Financial Assistance Corporation	......	......	......	1,261	1,261	1,261
National Archives and Records Administration	......	......	......	302	302	302
Tennessee Valley Authority	942	2,868	2,681	21,675	23,601	24,543
Total, agency securities	**951**	**2,651**	**2,466**	**24,682**	**26,382**	**27,334**

... No Transactions.
(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, May 1994 and Other Periods

[$ millions]

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Borrowing from the Treasury:						
Funds Appropriated to the President:						
International Security Assistance:						
Guaranty reserve fund	......	405	......	......	405	405
Agency for International Development:						
International Debt Reduction	......	......	......	348	348	348
Housing and other credit guaranty programs	......	......	......	125	125	125
Overseas Private Investment Corporation	......	8	3	8	16	16
Department of Agriculture:						
Foreign assistance programs	......	354	70	193	547	547
Commodity Credit Corporation	710	−9,129	4,855	24,745	14,906	15,617
Farmers Home Administration:						
Agriculture credit insurance fund	60	−1,225	68	5,771	4,486	4,546
Self-help housing land development fund	......	1	(* *)	1	1	1
Rural housing insurance fund	......	2,134	360	2,910	5,044	5,044
Rural Development Administration:						
Rural development insurance fund	......	561	41	1,680	2,241	2,241
Rural development loan fund	......	29	2	5	34	34
Federal Crop Insurance Corporation:						
Federal crop insurance corporation fund	......	−113	......	113	......	......
Rural Electrification Administration:						
Rural communication development fund	......	31	......	25	55	55
Rural electrification and telephone revolving fund	......	247	275	8,099	8,346	8,346
Rural Telephone Bank	−14	−170	40	802	645	632
Department of Commerce:						
Federal ship financing fund, NOAA	......	......	−2	......	......	......
Department of Education:						
Guaranteed student loans	......	......	......	2,058	2,058	2,058
College housing and academic facilities fund	......	14	......	154	168	168
College housing loans	......	(* *)	......	460	460	460
Department of Energy:						
Isotope production and distribution fund	......	......	3	13	13	13
Bonneville power administration fund	107	266	410	2,332	2,490	2,597
Department of Housing and Urban Development:						
Housing programs:						
Housing for the ederly and handicapped	......	−475	185	8,959	8,484	8,484
Public and Indian housing:						
Low-rent public housing	......	25	25	110	135	135
Department of the Interior:						
Bureau of Reclamation Loans	......	6	2	5	11	11
Bureau of Mines, Helium Fund	......	......	......	252	252	252
Bureau of Indian Affairs:						
Revolving funds for loans	......	9	3	17	26	26
Department of Justice:						
Federal prison industries, incorporated	......	......	......	20	20	20
Department of State:						
Repatriation loans	......	......	−1	......	......	......
Department of Transportation:						
Federal Railroad Administration:						
Railroad rehabilitation and improvement financing funds	8	8	8	8	8	15
Settlements of railroad litigation	......	......	......	−39	−39	−39
Amtrak corridor improvement loans	......	......	1	2	2	2
Regional rail reorganization program	......	......	......	39	39	39
Federal Aviation Administration:						
Aircraft purchase loan guarantee program	......	(* *)	(* *)	(* *)	(* *)	(* *)
Department of the Treasury:						
Federal Financing Bank revolving fund	−2,294	−13,236	−27,207	114,329	103,386	101,092
Department of Veterans Affairs:						
Loan guaranty revolving fund	......	1,158	514	860	2,018	2,018
Guaranty and indemnity fund	......	612	183	83	695	695
Direct loan revolving fund	......	7	(* *)	1	8	8
Vocational rehabilitation revolving fund	......	1	(* *)	2	2	2
Environmental Protection Agency:						
Abatement, control, and compliance loan program	......	10	3	12	22	22
Small Business Administration:						
Business loan and revolving fund	......	2,464	......	3,203	5,667	5,667

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, May 1994 and Other Periods—Continued

[$ millions]

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Borrowing for the Treasury:—Continued						
Other independent agencies:						
Export-Import Bank of the United States	......	811	161	386	1,197	1,197
Federal Emergency Management Agency:						
National insurance development fund	......	125	8	42	167	167
Pennsylvania Avenue Development Corporation:						
Land aquisition and development fund	......	9	3	76	85	85
Railroad Retirement Board:						
Railroad retirement account	......	......	......	2,128	2,128	2,128
Social Security equivalent benefit account	252	2,013	1,977	2,690	4,451	4,703
Smithsonian Institution:						
John F. Kennedy Center parking facilities	......	......	......	20	20	20
Tennessee Valley Authority	......	......	......	150	150	150
Total agency borrowing from the Treasury financed through public debt securities issued	**−1,171**	**−13,042**	**−18,010**	**183,196**	**171,325**	**170,154**
Borrowing from the Federal Financing Bank:						
Funds Appropriated to the President:						
Foreign military sales	−19	−164	−150	4,083	3,938	3,919
Department of Agriculture:						
Rural Electrification Administration	59	−235	−173	22,252	21,959	22,018
Farmers Home Administration:						
Agriculture credit insurance fund	−395	−910	−2,600	8,908	8,393	7,998
Rural housing insurance fund	−320	−585	......	26,036	25,771	25,451
Rural development insurance fund	......	......	......	3,675	3,675	3,675
Department of Defense:						
Department of the Navy	......	......	......	1,624	1,624	1,624
Defense agencies	......	−49	−48	−96	−145	−145
Department of Education:						
Student Loan Marketing Association	......	−4,790	−30	4,790	......	......
Department of Health and Human Services, Except Social Security:						
Medical facilities guarantee and loan fund	−1	−6	−25	85	79	78
Department of Housing and Urban Development:						
Low rent housing loans and other expenses	......	−54	−52	1,801	1,747	1,747
Community Development Grants	−1	−16	−35	131	116	115
Department of Interior:						
Territorial and international affairs	......	−1	−28	23	22	22
Department of Transportation:						
Federal Railroad Administration	(* *)	−1	−1	17	16	16
Department of the Treasury:						
Financial Management Service	......	−30	−72	30	......	......
General Services Administration:						
Federal buildings fund	37	249	544	1,436	1,648	1,685
Small Business Administration:						
Business loan and investment fund	−5	−57	−76	670	618	613
Independent agencies:						
Export-Import Bank of the United States	......	−948	−950	5,795	4,847	4,847
Federal Deposit Insurance Corporation:						
Bank insurance fund	......	......	−6,660	......	......	......
Pennsylvania Avenue Development Corporation	9	67	42	150	208	217
Postal Service	−258	−258	537	9,732	9,732	9,473
Resolution Trust Corporation	......	−4,285	−15,758	31,688	27,402	27,402
Tennessee Valley Authority	−1,400	−1,650	−1,673	6,325	6,075	4,675
Washington Metropolitan Transit Authority	......	488	......	177	665	665
Total borrowing from the Federal Financing Bank	**−2,294**	**−13,237**	**−27,209**	**129,332**	**118,389**	**116,095**

Note: This table includes lending by the Federal Financing Bank accomplished by the purchase agency financial assets, by the acquisition of agency debt securities, and by direct loans on behalf of an agency. The Federal Financing Bank borrows from Treasury and issues its own securities and in turn may loan these funds to agencies in lieu of agencies borrowing directly through Treasury or issuing their own securities.

... No Transactions.
(* *) Less than $500,000
Note: Details may not add to totals due to rounding

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, May 1994 and Other Periods

[$ millions]

Classification	Net Purchases or Sales (−)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Federal funds:						
Department of Agriculture	(* *)	2	1	......	2	2
Department of Commerce	(* *)	3	3	10	13	13
Department of Defense—Military:						
Defense cooperation account	......	−4	−2,020	9	5	5
Department of Energy	179	458	323	4,081	4,360	4,538
Department of Housing and Urban Development:						
Housing programs:						
Federal housing administration fund:						
Public debt securities	892	479	−300	5,214	4,801	5,693
Government National Mortgage Association:						
Management and liquidating functions fund:						
Public debt securities	......	−9	2	9	......	......
Agency securities	......	−4	......	20	16	16
Guarantees of mortgage-backed securities:						
Public debt securities	26	316	295	3,221	3,512	3,537
Agency securities	......	(* *)	(* *)	1	1	1
Other	......	−6	7	191	184	184
Department of the Interior:						
Public debt securities	39	479	399	2,508	2,948	2,987
Department of Labor	83	−11,770	794	16,590	4,738	4,820
Department of Transportation	3	59	70	881	937	940
Department of the Treasury	989	962	1,711	5,773	5,747	6,736
Department of Veterans Affairs:						
Canteen service revolving fund	2	3	−6	38	39	41
Veterans reopened insurance fund	−5	−6	−3	518	518	513
Servicemen's group life insurance fund	......	−109	−50	150	41	41
Independent agencies:						
Export-Import Bank of the United States	49	432	223	76	460	508
Federal Deposit Insurance Corporation:						
Bank insurance fund	360	6,432	−1,654	4,325	10,397	10,757
Savings association insurance fund	16	535	431	1,283	1,803	1,818
FSLIC resolution fund						
Public debt securities	−207	1,303	−709	828	2,338	2,131
Federal Emergency Management Agency:						
National flood insurance fund	......	−71	−422	71	......	......
National Credit Union Administration	21	248	326	2,764	2,991	3,012
Postal Service	−26	2,051	2,246	3,027	5,104	5,078
Tennessee Valley Authority	−775	502	−720	3,452	4,729	3,954
Other	−3	83	53	853	939	936
Other	87	189	216	2,715	2,817	2,904
Total public debt securities	1,728	2,560	1,216	58,589	59,421	61,149
Total agency securities	......	−4	(* *)	21	17	17
Total Federal funds	**1,728**	**2,556**	**1,216**	**58,610**	**59,438**	**61,186**
Trust funds:						
Legislative Branch:						
Library of Congress	−2	3	3	1	6	4
United States Tax Court	(* *)	(* *)	(* *)	4	5	5
Other	(* *)	(* *)	(* *)	27	27	27
The Judiciary:						
Judicial retirement funds	3	27	15	212	236	239
Department of Agriculture	4	195	7	5	195	199
Department of Commerce	(* *)	(* *)	(* *)	......	(* *)	(* *
Department of Defense—Military:						
Voluntary separation incentive fund	−5	−30	902	844	820	815
Other	1	7	−7	151	158	159
Department of Defense—Civil:						
Military retirement fund	3,889	13,169	13,159	96,690	105,970	109,859
Other	39	39	342	1,213	1,213	1,252

able 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, May 1994 and Other Periods—Continued

[$ millions]

Classification	Net Purchases or Sales (−)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
ust Funds—Continued						
Department of Health and Human Services, except Social Security:						
Federal hospital insurance trust fund:						
Public debt securities	−889	210	2,979	126,078	127,177	126,289
Federal supplementary medical insurance trust fund	−182	92	3,366	23,268	23,542	23,360
Other	12	108	53	659	755	768
Department of Health and Human Services, Social Security:						
Federal old-age and survivors insurance trust fund:						
Public debt securities	2,790	37,353	28,937	355,510	390,073	392,862
Federal disability insurance trust fund	−551	−2,301	−1,688	10,237	8,487	7,936
Department of the Interior:						
Public debt securities	13	30	−151	184	202	215
Department of Justice	......	67	143	......	67	67
Department of Labor:						
Unemployment trust fund	8,527	3,040	1,350	36,607	31,120	39,646
Other	−9	−17	−18	53	46	36
Department of State:						
Foreign Service retirement and disability fund	−25	218	202	6,662	6,905	6,880
Other	......	12	37	38	50	50
Department of Transportation:						
Highway trust fund	−697	−1,987	1,914	22,004	20,715	20,018
Airport and airway trust fund	17	−489	−2,270	12,672	12,166	12,183
Other	29	−87	129	1,675	1,559	1,588
Department of the Treasury	−25	23	−33	209	211	186
Department of Veterans Affairs:						
General post fund, national homes	(* *)	(* *)	5	39	38	38
National service life insurance:						
Public debt securities	−82	−56	83	11,666	11,692	11,610
United States government life Insurance Fund	−2	−7	−7	125	119	118
Veterans special life insurance fund	−7	4	14	1,462	1,473	1,466
Environmental Protection Agency	60	495	731	5,477	5,911	5,971
National Aeronautics and Space Administration	(* *)	1	(* *)	16	16	16
Office of Personnel Management:						
Civil service retirement and disability fund:						
Public debt securities	−1,801	−1,219	−996	311,705	312,286	310,485
Employees health benefits fund	148	622	556	6,794	7,268	7,416
Employees life insurance fund	329	925	830	13,688	14,284	14,613
Retired employees health benefits fund	(* *)	(* *)	(* *)	1	1	1
ndependent agencies:						
Harry S. Truman memorial scholarship trust fund	(* *)	1	2	52	53	53
Japan-United States Friendship Commission	(* *)	(* *)	(* *)	17	17	17
Railroad Retirement Board	−2	−114	254	11,961	11,849	11,847
Other	3	102	18	125	223	227
Total public debt securities	11,587	50,389	50,862	1,058,131	1,096,932	1,108,519
Total trust funds	**11,587**	**50,389**	**50,862**	**1,058,131**	**1,096,932**	**1,108,519**
nd total	**13,316**	**52,945**	**52,078**	**1,116,740**	**1,156,370**	**1,169,686**

.. No Transactions
(* *) Less than $500,000.

Note: Investments are in public debt securities unless otherwise noted.
Note: Details may not add to totals due to rounding.

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1994

[$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
Receipts:														
Individual income taxes	37,680	37,634	54,183	74,167	28,107	29,917	60,038	24,384					346,109	320,659
Corporation income taxes	2,158	2,208	28,239	3,916	1,594	15,574	20,586	2,817					77,092	63,424
Social insurance taxes and contributions														
Employment taxes and contributions	29,440	31,525	33,273	35,831	32,957	35,976	47,348	35,749					282,100	260,690
Unemployment insurance	1,046	2,773	259	794	2,664	522	2,605	10,426					21,089	19,323
Other retirement contributions	343	385	423	358	367	459	370	364					3,068	3,173
Excise taxes	3,597	4,808	4,695	4,011	3,249	5,285	4,050	5,253					34,948	30,598
Estate and gift taxes	990	1,305	1,179	1,105	1,093	1,211	2,378	1,342					10,603	8,534
Customs duties	1,708	1,688	1,584	1,526	1,419	1,745	1,479	1,620					12,769	11,925
Miscellaneous receipts	1,706	781	1,575	1,258	1,424	2,418	2,472	1,589					13,224	11,460
Total—Receipts this year	**78,668**	**83,107**	**125,408**	**122,966**	**72,874**	**93,108**	**141,326**	**83,546**					**801,002**	......
(On-budget)	**55,864**	**58,700**	**99,714**	**94,395**	**46,880**	**64,611**	**104,311**	**55,366**					**579,840**	.....
(Off-budget)	**22,804**	**24,407**	**25,694**	**28,571**	**25,995**	**28,497**	**37,015**	**28,179**					**221,162**	......
Total—Receipts prior year	*76,829*	*74,629*	*113,686*	*112,716*	*65,979*	*83,288*	*132,017*	*70,642*					......	*729,785*
(On budget)	*55,052*	*51,215*	*89,590*	*90,127*	*40,879*	*57,094*	*96,307*	*44,520*					......	*524,785*
(Off budget)	*21,776*	*23,414*	*24,096*	*22,589*	*25,100*	*26,194*	*35,709*	*26,122*					......	*205,000*
Outlays														
Legislative Branch	378	206	204	212	202	198	164	188					1,751	1,613
The Judiciary	158	219	190	179	177	386	182	224					1,715	1,667
Executive Office of the President	20	18	16	20	14	14	25	16					142	134
Funds Appropriated to the President:														
International Security Assistance	3,312	408	370	337	468	130	552	409					5,986	6,098
International Development Assistance	548	340	237	179	55	288	507	278					2,431	2,293
Other	133	348	17	156	5	−426	101	86					421	859
Department of Agriculture:														
Foreign assistance, special export programs and Commodity Credit Corporation	900	2,263	2,614	974	1,369	1,130	1,342	702					11,294	16,819
Other	3,993	4,886	3,794	3,815	3,373	4,264	3,873	4,206					32,203	30,818
Department of Commerce	264	277	282	244	245	261	231	173					1,977	1,815
Department of Defense:														
Military:														
Military personnel	6,634	5,357	8,626	2,944	5,835	5,959	8,098	3,150					46,605	50,398
Operation and maintenance	6,413	7,049	6,953	8,668	6,156	8,169	7,089	6,354					56,851	59,986
Procurement	5,131	5,132	5,746	4,043	5,600	6,361	4,493	4,545					41,050	46,123
Research, development, test, and evaluation	2,987	2,875	2,949	2,678	2,252	3,292	2,691	3,090					22,813	23,789
Military construction	404	388	390	415	344	372	188	465					2,967	3,086
Family housing	226	208	241	273	265	303	326	263					2,105	2,082
Revolving and management funds	1,568	816	275	−892	542	−1,153	876	569					2,601	1,345
Other	−217	−28	572	−12	−52	69	−209	93					217	−888
Total Military	23,147	21,796	25,752	18,117	20,943	23,372	23,552	18,530					175,209	185,920
Civil	2,550	2,515	2,550	2,509	2,459	2,471	2,513	2,507					20,073	19,50[illegible]
Department of Education	1,805	3,356	2,535	1,102	1,202	1,004	2,068	2,243					15,316	20,564
Department of Energy	1,710	1,723	1,492	1,269	1,221	1,561	1,263	1,158					11,398	10,77[illegible]
Department of Health and Human Services, except Social Security:														
Public Health Service	1,467	1,700	1,633	1,178	1,694	1,954	1,462	1,630					12,717	12,22[illegible]
Health Care Financing Administration:														
Grants to States for Medicaid	7,394	6,626	7,088	6,097	6,202	7,220	6,475	6,982					54,083	49,13[illegible]
Federal hospital ins. trust fund	7,432	8,006	9,319	7,193	8,196	10,069	8,224	8,339					66,779	59,52[illegible]
Federal supp. med. ins. trust fund	4,650	4,838	5,846	4,170	4,213	5,293	4,533	4,623					38,165	34,614
Other	3,783	3,801	3,782	2,968	2,926	3,605	3,572	3,001					27,439	29,94[illegible]
Social Security Administration	2,970	2,061	3,892	1,760	2,087	2,110	5,625	298					20,803	20,12[illegible]
Administration for children and families	2,797	2,723	2,828	2,771	2,864	2,359	2,910	2,622					21,874	19,10[illegible]
Other	−5,060	−5,060	−5,094	−4,429	−4,525	−5,109	−5,059	−4,501					−38,837	−39,80[illegible]
Department of Health and Human Services, Social Security:														
Federal old-age and survivors ins. trust fund	22,546	22,554	22,927	23,097	23,250	23,297	23,398	23,252					184,321	176,59[illegible]
Federal disability ins. trust fund	2,992	2,998	2,991	3,054	3,077	3,212	3,231	3,275					24,829	22,64[illegible]
Other	−977	−7	−17	−1,559	−10	−13	−1,558	−9					−4,150	−4,5[illegible]
Department of Housing and Urban Development	2,645	2,415	2,309	1,564	1,886	2,278	2,246	2,048					17,391	16,4[illegible]

'able 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1994—Continued

[$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
)utlays—Continued														
epartment of the Interior	527	600	507	675	499	631	489	448					4,375	4,216
epartment of Justice	749	905	773	822	734	1,023	802	836					6,645	6,997
epartment of Labor:														
Unemployment trust fund	2,710	2,762	3,146	3,044	3,080	3,183	2,369	2,128					22,422	27,232
Other	652	61	673	463	444	26	881	551					3,751	2,962
epartment of State	843	586	478	407	360	417	251	320					3,664	3,803
epartment of Transportation:														
Highway trust fund	1,774	1,601	1,516	1,244	1,271	1,135	1,203	1,434					11,177	9,428
Other	1,377	1,651	2,224	1,255	1,541	1,791	1,459	1,469					12,767	11,886
epartment of the Treasury:														
Interest on the public debt	17,638	22,260	52,712	17,899	16,208	18,122	18,328	23,943					187,110	186,590
Other	−102	75	983	590	4,931	2,844	1,207	666					11,194	7,929
epartment of Veterans Affairs:														
Compensation and pensions	1,400	1,406	2,748	61	1,434	1,463	2,787	97					11,396	11,240
National service life	66	57	75	68	57	122	72	74					590	465
United States government life	2	1	2	1	1	2	2	2					12	13
Other	1,338	1,705	1,613	2,001	1,618	1,179	1,045	1,472					11,971	11,583
ıvironmental Protection Agency	430	506	458	456	430	543	440	439					3,702	3,778
eneral Services Administration	239	−489	384	−658	344	231	−549	417					−82	265
itional Aeronautics and Space ıdministration	1,079	1,214	1,191	1,015	1,029	1,275	986	1,110					8,899	9,452
fice of Personnel Management	3,335	2,879	3,079	3,249	3,098	3,207	3,413	3,012					25,273	24,113
nall Business Administration	14	146	49	−7	27	64	52	70					414	581
lependent agencies:														
Fed. Deposit Ins. Corp.:														
Bank insurance fund	52	−182	−1,322	−452	−3,558	−379	−145	−382					−6,368	−4,942
Savings association insurance fund	−5	4	8	−25	−492	−7	−2	−16					−534	−431
FSLIC resolution fund	(* *)	8	−140	−93	−253	−15	−552	207					−839	1,200
Postal Service:														
Public enterprise funds (off-budget)	−509	−237	146	194	184	−746	−1,049	60					−1,957	−1,844
Payment to the Postal Service fund	61	......	......	23	......	......	23	......					107	130
Resolution Trust Corporation	7	−1,169	2,471	−74	−678	−439	783	1,777					2,678	−14,332
Tennessee Valley Authority	106	168	101	212	32	−18	101	213					914	1,467
Other independent agencies	1,705	2,048	991	1,402	1,780	1,973	1,489	1,474					12,862	11,851
distributed offsetting receipts:														
Employer share, employee retirement	−2,572	−2,449	−2,592	−2,601	−2,592	−2,733	−2,585	−2,557					−20,682	−20,597
nterest received by trust funds	−359	−5,173	−36,027	−122	−458	−130	−726	−5,467					−48,463	−46,128
Rents and royalties on outer continental shelf lands	−21	−461	−145	−313	−223	−266	−136	−475					−2,040	−1,621
Other	(* *)	(* *)	(* *)	(* *)	......	......	(* *)	(* *)					(* *)	(* *)
tals this year:														
'otal outlays	**124,090**	**121,488**	**133,660**	**107,718**	**114,440**	**125,423**	**123,872**	**115,600**					**966,291**	......
(On-budget)	**100,567**	**96,724**	**121,977**	**83,526**	**88,523**	**100,259**	**100,625**	**89,728**					**781,931**	......
(Off-budget)	**23,523**	**24,764**	**11,683**	**24,192**	**25,917**	**25,164**	**23,247**	**25,871**					**184,360**	......
'otal-surplus (+) or deficit (−)	**−45,422**	**−38,381**	**−8,252**	**+15,248**	**−41,566**	**−32,315**	**+17,454**	**−32,054**					**−165,289**	......
(On-budget)	**−44,704**	**−38,024**	**−22,263**	**+10,869**	**−41,644**	**−35,648**	**+3,686**	**−34,362**					**−202,091**	......
(Off-budget)	**−719**	**−357**	**+14,012**	**+4,379**	**+77**	**+3,333**	**+13,768**	**+2,308**					**+36,802**	......
otal borrowing from the public	**4,255**	**71,028**	**13,995**	**−6,933**	**31,633**	**26,511**	**−21,801**	**27,649**					**146,337**	**177,852**
'otal—outlays prior year	*125,620*	*107,355*	*152,633*	*82,899*	*114,477*	*127,263*	*124,200*	*107,605*					......	*942,052*
(On-budget)	*103,780*	*83,436*	*116,572*	*84,925*	*89,720*	*103,025*	*101,752*	*83,210*					......	*766,420*
(Off-budget)	*21,841*	*23,919*	*36,061*	*−2,025*	*24,757*	*24,237*	*22,448*	*24,395*					......	*175,632*
otal-surplus (+) or deficit (−) prior ɿear	*−48,792*	*−32,726*	*−38,947*	*+29,817*	*−48,498*	*−43,974*	*+7,817*	*−36,963*					......	*−212,266*
(On-budget)	*−48,727*	*−32,221*	*−26,982*	*+5,202*	*−48,842*	*−45,931*	*−5,445*	*−38,690*					......	*−241,635*
(Off-budget)	*−65*	*−505*	*−11,965*	*+24,614*	*+344*	*+1,957*	*+13,261*	*+1,727*					......	*+29,369*

. No transactions.
· *) Less than $500,000.
lote: Details may not add to totals due to rounding.

Table 8. Trust Fund Impact on Budget Results and Investment Holdings as of May 31, 1994

[$ millions]

Classification	This Month			Fiscal Year to Date			Securities held as Investments Current Fiscal Year		
							Beginning of		Close of This Month
	Receipts	Outlays	Excess	Receipts	Outlays	Excess	This Year	This Month	
Trust receipts, outlays, and investments held:									
Airport	482	510	−27	3,679	4,074	−395	12,672	12,166	12,183
Black lung disability	53	50	3	410	401	9	......	......	......
Federal disability insurance	2,786	3,275	−489	22,432	24,829	−2,398	10,237	8,487	7,936
Federal employees life and health	......	−328	328	......	−1,133	1,133	20,484	21,554	22,030
Federal employees retirement	1,261	3,076	−1,815	23,306	24,241	−935	318,583	319,431	317,609
Federal hospital insurance	7,508	8,339	−831	66,819	66,779	41	126,078	127,177	126,289
Federal old-age and survivors insurance	26,109	23,252	2,857	221,564	184,321	37,242	355,510	390,073	392,862
Federal supplementary medical insurance	4,453	4,623	−170	38,444	38,165	279	23,268	23,542	23,360
Highways	1,178	1,951	−773	11,874	13,840	−1,966	22,004	20,715	20,018
Military advances	1,095	1,129	−34	8,399	8,822	−423	......	......	......
Railroad retirement	468	656	−189	3,242	5,210	−1,968	11,961	11,849	11,847
Military retirement	6,029	2,249	3,781	30,667	17,684	12,983	96,690	105,970	109,859
Unemployment	10,500	2,128	8,371	25,368	22,422	2,946	36,607	31,120	39,646
Veterans life insurance	27	107	−80	780	830	−50	13,253	13,283	13,193
All other trust	399	276	123	3,500	2,635	866	10,784	11,566	11,687
Total trust fund receipts and outlays and investments held from Table 6-D	**62,348**	**51,293**	**11,055**	**460,485**	**413,121**	**47,364**	**1,058,131**	**1,096,932**	**1,108,519**
Less: Interfund transactions	11,100	11,100	......	116,385	116,385	......			
Trust fund receipts and outlays on the basis of Tables 4 & 5	51,248	40,193	11,055	344,100	296,736	47,364			
Total Federal fund receipts and outlays	**35,080**	**78,189**	**−43,109**	**478,113**	**690,766**	**−212,653**			
Less: Interfund transactions	20	20	......	157	157	......			
Federal fund receipts and outlays on the basis of Table 4 & 5	35,060	78,169	−43,109	477,956	690,609	−212,653			
Less: offsetting proprietary receipts	2,762	2,762	......	21,054	21,054	......			
Net budget receipts & outlays	**83,546**	**115,600**	**−32,054**	**801,002**	**966,291**	**−165,289**			

...... No transactions.

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds such as Federal payments and contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipts side of such transactions is offset against bugdet outlays. In this table, Interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds respectively.

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

'able 9. Summary of Receipts by Source, and Outlays by Function of the U.S. Government, May 1994 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year
IECEIPTS			
ıdividual income taxes	24,384	346,109	320,659
;orporation income taxes	2,817	77,092	63,424
;ocial insurance taxes and contributions:			
Employment taxes and contributions	35,749	282,100	260,690
Unemployment insurance	10,426	21,089	19,323
Other retirement contributions	364	3,068	3,173
xcise taxes	5,253	34,948	30,598
state and gift taxes	1,342	10,603	8,534
;ustoms	1,620	12,769	11,925
tiscellaneous	1,589	13,224	11,460
Total	**83,546**	**801,002**	**729,785**
IET OUTLAYS			
ational defense	19,509	183,736	193,719
ıternational affairs	917	12,462	12,861
eneral science, space, and technology	1,415	11,344	11,242
nergy	325	3,095	3,519
atural resources and environment	1,519	13,696	13,670
griculture	1,112	13,884	18,855
ommerce and housing credit	1,564	−5,988	−18,572
'ansportation	2,869	23,703	21,682
;ommunity and Regional Development	843	7,005	6,398
ducation, training, employment and social services	3,841	28,555	32,573
ealth	9,074	70,045	64,533
edicare	11,430	93,297	84,155
come security	15,796	149,848	144,976
ocial Security	26,525	209,146	199,220
eterans benefits and services	1,666	24,161	23,481
dministration of justice	1,277	10,141	9,987
eneral government	1,279	7,028	8,649
terest	17,671	133,855	133,322
ıdistributed offsetting receipts	−3,032	−22,721	−22,218
Total	**115,600**	**966,291**	**942,052**

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

Explanatory Notes

1. Flow of Data Into Monthly Treasury Statement

The Monthly Treasury Statement (MTS) is assembled from data in the central accounting system. The major sources of data include monthly accounting reports by Federal entities and disbursing officers, and daily reports from the Federal Reserve banks. These reports detail accounting transactions affecting receipts and outlays of the Federal Government and off-budget Federal entities, and their related effect on the assets and liabilities of the U.S. Government. Information is presented in the *MTS* on a modified cash basis.

2. Notes on Receipts

Receipts included in the report are classified into the following major categories: (1) budget receipts and (2) offsetting collections (also called applicable receipts). Budget receipts are collections from the public that result from the exercise of the Government's sovereign or governmental powers, excluding receipts offset against outlays. These collections, also called governmental receipts, consist mainly of tax receipts (including social insurance taxes), receipts from court fines, certain licenses, and deposits of earnings by the Federal Reserve System. Refunds of receipts are treated as deductions from gross receipts.

Offsetting collections are from other Government accounts or the public that are of a business-type or market-oriented nature. They are classified into two major categories: (1) offsetting collections credited to appropriations or fund accounts, and (2) offsetting receipts (i.e., amounts deposited in receipt accounts). Collections credited to appropriation or fund accounts normally can be used without appropriation action by Congress. These occur in two instances: (1) when authorized by law, amounts collected for materials or services are treated as reimbursements to appropriations and (2) in the three types of revolving funds (public enterprise, intragovernmental, and trust); collections are netted against spending, and outlays are reported as the net amount.

Offsetting receipts in receipt accounts cannot be used without being appropriated. They are subdivided into two categories: (1) proprietary receipts—these collections are from the public and they are offset against outlays by agency and by function, and (2) intragovernmental funds—these are payments into receipt accounts from Governmental appropriation or funds accounts. They finance operations within and between Government agencies and are credited with collections from other Government accounts. The transactions may be intrabudgetary when the payment and receipt both occur within the budget or from receipts from off-budget Federal entities in those cases where payment is made by a Federal entity whose budget authority and outlays are excluded from the budget totals.

Intrabudgetary transactions are subdivided into three categories: (1) interfund transactions, where the payments are from one fund group (either Federal funds or trust funds) to a receipt account in the other fund group; (2) Federal intrafund transactions, where the payments and receipts both occur within the Federal fund group; and (3) trust intrafund transactions, where the payments and receipts both occur within the trust fund group.

Offsetting receipts are generally deducted from budget authority and outlays by function, by subfunction, or by agency. There are four types of receipts, however, that are deducted from budget totals as undistributed offsetting receipts. They are: (1) agencies' payments (including payments by off-budget Federal entities) as employers into employees retirement funds, (2) interest received by trust funds, (3) rents and royalties on the Outer Continental Shelf lands, and (4) other interest (i.e., interest collected on Outer Continental Shelf money in deposit funds when such money is transferred into the budget).

3. Notes on Outlays

Outlays are generally accounted for on the basis of checks issued, electronic funds transferred, or cash payments made. Certain outlays do not require issuance of cash or checks. An example is charges made against appropriations for that part of employees' salaries withheld for taxes or savings bond allotments — these are counted as payments to the employee and credits for whatever purpose the money was withheld. Outlays are stated net of offsetting collections (including receipts of revolving and management funds) and of refunds. Interest on the public debt (public issues) is recognized on the accrual basis. Federal credit programs subject to the Federal Credit Reform Act of 1990 use the cash basis of accounting and are divided into two components. The portion of the credit activities that involve a cost to the Government (mainly subsidies) is included within the budget program accounts. The remaining portion of the credit activities are in non-budget financing accounts. Outlays of off-budget Federal entities are excluded by law from budget totals. However, they are shown separately and combined with the on-budget outlays to display total Federal outlays.

4. Processing

The data on payments and collections are reported by account symbol into the central accounting system. In turn, the data are extracted from this system for use in the preparation of the *MTS*.

There are two major checks which are conducted to assure the consistency of the data reported:

1. Verification of payment data. The monthly payment activity reported by Federal entities on their Statements of Transactions is compared to the payment activity of Federal entities as reported by disbursing officers.
2. Verification of collection data. Reported collections appearing on Statements of Transactions are compared to deposits as reported by Federal Reserve banks.

5. Other Sources of Information About Federal Government Financial Activities

- *A Glossary of Terms Used in the Federal Budget Process, January 1993* (Available from the U.S. General Accounting Office, Gaithersburg, Md. 20760). This glossary provides a basic reference document of standardized definitions of terms used by the Federal Government in the budgetmaking process.

- *Daily Treasury Statement* (Available from GPO, Washington, D.C. 20402, on a subscription basis only). *The Daily Treasury Statement* is published each working day of the Federal Government and provides data on the cash and debt operations of the Treasury.

- *Monthly Statement of the Public Debt of the United States* (Available from GPO, Washington, D.C. 20402 on a subscription basis only). This publication provides detailed information concerning the public debt.

- *Treasury Bulletin* (Available from GPO, Washington, D.C. 20402, by subscription or single copy). Quarterly. Contains a mix of narrative, tables and charts on Treasury issues, Federal financial operations, international statistics, and special reports.

- *Budget of the United States Government, Fiscal Year 19__* (Available from GPO, Washington, D.C. 20402). This publication is a single volume which provides budget information and contains:

  - *-Appendix, The Budget of the United States Government, FY 19__*
  - *-The United States Budget in Brief, FY 19 __*
  - *-Special Analyses*
  - *-Historical Tables*
  - *-Management of the United States Government*
  - *-Major Policy Initiatives*

- *United States Government Annual Report and Appendix* (Available from Financial Management Service, U.S. Department of the Treasury, Washington, D.C. 20227). This annual report represents budgetary results at the summary level. The appendix presents the individual receipt and appropriation accounts at the detail level.

Scheduled Release

The release date for the June 1993 Statement will be 2:00 pm EST July 22, 1994.

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 (202) 783-3238. The subscription price is $27.00 per year (domestic), $33.73 per year (foreign).
No single copies are sold.

STATISTICAL SUMMARY
Series EE and HH U. S. Savings Bonds
Month of May 1994

ISSUES, REDEMPTIONS AND OUTSTANDING	May 1994	May 1993
	(In millions of dollars)	
Sales: Series EE	$ 725	$ 787
Accrued Discount (Interest earned and added to Amount Outstanding) Series E & EE	719	723
Redemptions (Including Accrued Discount) All Series	759	627
Cash Adjustments from Series HH Savings Bonds Exchanges	(1)	(3)
Amount Outstanding Net Change (+)/(-)*	684	880
Total Outstanding	1994	1993
Series E & EE	$165,254	$154,693
Series H & HH	11,313	10,980
	$176,567	$165,673

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Department of the Treasury

ATFNEWS

PRESS CONFERENCE ALERT

ATLANTA GETS LATEST CRIME FIGHTING TECHNOLOGY

WHO: Ronald K. Noble,
Assistant Secretary (Enforcement)
U.S. Treasury Department

Charles R. Thomson, Associate Director
Bureau of Alcohol, Tobacco and Firearms

Thomas Stokes, Special Agent in Charge
Bureau of Alcohol, Tobacco and Firearms

Milton E. Nix, Jr., Director
Georgia Bureau of Investigation

WHAT: Introduction of "Ceasefire", the latest technology from ATF to capture violent criminals using firearms.

WHEN: Thursday, June 23, 1994 at 10:15 a.m.

WHERE: Georgia Bureau of Investigation
3121 Panthersville Road
Decatur, Georgia

DETAILS: Atlanta will soon be obtaining the only fully automated ballistic comparison system available. Ceasefire is a Federal initiative that will benefit State and local law enforcement officers through a computer comparison of recovered bullets utilizing laser technology.

CONTACTS: Bureau of Alcohol, Tobacco and Firearms
Bobby Browning
(404) 331-6526

Georgia Bureau of Investigation
John Bankhead
(404) 244-2510

Hamilton Dix
U.S. Treasury Department
(202) 622-2960

LB-906

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
June 22, 1994

STATEMENT BY TREASURY SECRETARY LLOYD BENTSEN

"I am concerned by recent movements in the exchange markets. We are carefully monitoring developments. We continue to be in close communication with our G-7 partners, and we continue to be prepared to act as appropriate."

"Ultimately, what is important is the fundamental strength of our economy, and I am very confident in the outlook. We are now in the midst of the first investment-led recovery from a low-inflation base in 30 years. And there is increased evidence of recovery abroad. We share with the Fed and with our G-7 partners the common goal of sustaining recovery with low inflation."

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LB-907

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
June 22, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $11,013 million of 5-year notes, Series P-1999, to be issued June 30, 1994 and to mature June 30, 1999 were accepted today (CUSIP: 912827Q47).

The interest rate on the notes will be 6 3/4%. All competitive tenders at yields lower than 6.77% were accepted in full. Tenders at 6.77% were allotted 19%. All noncompetitive and sucessful competitive bidders were allotted securities at the yield of 6.77%, with an equivalent price of 99.916. The median yield was 6.74%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 6.70%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$30,282,216	$11,013,287

The $11,013 million of accepted tenders includes $856 million of noncompetitive tenders and $10,157 million of competitive tenders from the public.

In addition, $500 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $1,542 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

LB-908

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
June 22, 1994

REMARKS OF ASSISTANT SECRETARY (ENFORCEMENT) RONALD K. NOBLE PRESS CONFERENCE TO ANNOUNCE UPCOMING VISIT BY SENIOR LAW ENFORCEMENT OFFICIALS TO EASTERN EUROPE, THE BALTICS, UKRAINE AND RUSSIA F.B.I. HEADQUARTERS

The Department of the Treasury has unique law enforcement responsibilities and concerns with the newly free Republics of Eastern Europe and the former Soviet Union.

We too are concerned with the criminal problems that are besetting these nations and particularly the deteriorating situation in the Russian Federation. Organized crime is involved in many activities for which the Department of the Treasury's law enforcement bureaus have unique abilities to provide support and assistance.

Economically, organized crime severely impedes the progress of financial reform in these nations. For example, according to a report prepared by the Russian Government, up to 80% of businesses are paying "protection money" to Russian organized crime groups. This economic drain contributes to economic weakness and the high rate of inflation. We at Treasury are deeply concerned about this situation.

Secretary Bentsen visited several of these countries a few months ago, and he has asked me to bring back recommendations to him on what we can do to help democracy and capitalism succeed. Fighting crime is undoubtedly one way to do so.

It is important to note that, again according to the Russian authorities, economic crimes make up a third of the organized crime groups' activities. Embezzlement, bribery, price fixing, counterfeiting and money laundering are massive problems requiring tough solutions.

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The Secret Service, the Customs Service, and the Financial Crimes Enforcement Network will be tasked to help in these areas. Also the Secret Service's expertise can help deal with the growing counterfeiting problem that besets several of these nations.

In addition, the Federal Law Enforcement Training Center and the Bureau of Alcohol Tobacco and Firearms have special areas of expertise which we will try to bring forward to help these nations.

Finally, we are concerned with strengthening the police in these nations in order to more adequately prevent the risk of diverting weapons systems, including nuclear devices, into the hands of criminal organizations.

These are major challenges. The Department of the Treasury is committed to working closely with the Department of Justice, the FBI, DEA and the Department of State to help these nations and their police address the problems of organized crime and drug trafficking. We can have no higher priority. This joint effort will signal our foreign counterparts of our unity and resolve to attack crime affecting U.S. interests anywhere it might be.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
June 23, 1994

REMARKS OF ASSISTANT TREASURY SECRETARY (ENFORCEMENT)
RONALD K. NOBLE
GEORGIA BUREAU OF INVESTIGATION HEADQUARTERS
ATLANTA, GEORGIA

Thank you, Director Nix for that kind introduction. It's a pleasure to be here in Atlanta. I would like to welcome the representatives of Treasury's law enforcement bureaus who are here today, as well as the representatives of the local law enforcement organizations that are teaming with the Treasury Department's Bureau of Alcohol, Tobacco and Firearms in Operation Ceasefire. Before proceeding further, allow me to introduce the gentlemen behind me who have been instrumental in developing ATF's Operation Ceasefire, and in bringing Ceasefire to Atlanta. Charlie Thomson, Associate Director of the Bureau of Alcohol, Tobacco and Firearms; Forrest Webb, ATF's Ceasefire Program Manager; and Tom Stokes, Special Agent in Charge of ATF's Atlanta Field Division.

We are all aware that violent crime in this country has reached epidemic proportions. Those of you who are law enforcement officers, whose job it is to protect our communities, are reminded daily of the severity of the crime problem. So too are you members of the press, whose camera lenses and words bear witness to the atrocities that have become so commonplace on our streets. And, increasingly, ordinary citizens from all walks of life are being forced to confront this devastating social phenomenon. Over the last three years, almost one third of Americans either have been victims, or have seen their families victimized, by crime. Rampant, indiscriminate violence. In our neighborhoods. In our schools. In our homes. On Monday, it's young men murdered in a drive-by shooting. On Tuesday, a teacher is shot in the classroom by one of his students. On Wednesday, a little girl is killed by a stray bullet in the living room of her home. On Thursday, a disgruntled employee sprays his office with machine gun fire. This is rapidly becoming a country whose citizens are paralyzed by fear -- a country at the mercy of organized criminal gangs, armed drug traffickers, and other violent offenders who are ever more shocking in their brutality and brazen disregard for the value of human life.

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The statistics tracking the rise in violent crime are staggering. In the last three decades, violent crime has increased by 300 percent in this country. A recent Justice Department study indicates that in 1992, homicides by persons armed with handguns increased by 24 percent over the previous five-year average. The number of nonfatal violent crimes involving handguns increased by 50 percent during the same period. This protracted increase in firearms-related crime has been a focal point of Treasury Secretary Bentsen's anti-crime strategy, seeking to choke off the supply of arms to violent offenders by targeting the illicit gun market and scurrilous gun dealers.

The impact of this nationwide rise in crime is vividly illustrated here in Atlanta. In 1993, 31,270 violent crimes were committed in Atlanta and vicinity, placing this geographical area at the top of the list of communities hardest hit by violent crime. Of course, I could just as easily have been speaking about Washington, D.C. Or Houston. Or Chicago. We are dealing with a violent crime plague so profound, so universal, that no metropolitan area, or rural community for that matter, has been left untouched. Suffice it to say that Atlanta, and every city in the country, is being ravaged by crime. The citizens of this, and of every, community are scared. And they are tired of feeling that way.

Today the Treasury Department's Bureau of Alcohol, Tobacco and Firearms, the Georgia Bureau of Investigation, the police departments of Cobb, Clayton, DeKalb, Fulton and Gwinnett counties, and the police departments of the cities of Atlanta, College Park, East Point, and Forest Park are launching a coordinated, innovative campaign to combat the violence that is decimating our neighborhoods. ATF calls this campaign "Operation Ceasefire." Ceasefire is an initiative to combat violent crime by marshaling ATF's responsibility for enforcing the Federal firearms laws, in tandem with cutting edge technology, to provide support to state and local crime fighting efforts. Earlier this morning, memoranda of understanding were executed between ATF and these law enforcement organizations to implement Operation Ceasefire in Atlanta and the surrounding area.

The centerpiece of Operation Ceasefire is this machine you see behind me. It is called "Bulletproof," and it is one of the most significant technological developments in the area of forensics. Bulletproof is a innovative, new computer-based ballistics analysis system. As many of you may know, the microscopic examination of projectiles and cartridge casings, and the science of linking of projectiles and casings to weapons used in criminal activity, has for years been an integral element of the criminal investigative process. The best evidence linking a firearm to a specific crime or crimes is matching the recovered projectile or cartridge casing to the suspect firearm.

Historically, though, this process has been incredibly arduous and labor intensive. Because of its built-in inefficiencies, it also has been subject to geographic limitations. It has been difficult, using conventional ballistics examination techniques, to trace weapons to multiple criminal incidents taking place across jurisdictional boundaries. Investigations involving the same weapons and the same criminal actors tended to proceed on separate tracks, creating a significant waste of resources.

The Bulletproof system takes the science of ballistics analysis into the next century. In essence, the Bulletproof system can take a 360 degree picture of the ballistic characteristics of a projectile, automatically compare the projectile's characteristics with those of other projectiles stored in the Bulletproof database, and isolate a small universe of potential matches. This permits firearms examiners to analyze projectile prints more efficiently. It is estimated that Bulletproof will save countless hours of manual examination in making identifications. And, because Bulletproof maintains a continually expanding data base of projectiles recovered from crime scenes and seized weapons, it streamlines the mechanism for linking a given weapon to multiple crimes. This in turn enhances the prospect of linking multiple, otherwise separate criminal investigations.

Although the Bulletproof system is in its infancy, early results indicate that this is going to be an extremely effective crime fighting tool. After only six months of pilot testing in Washington, Operation Ceasefire, and the Bulletproof ballistics analysis system, have been instrumental in linking 11 otherwise unrelated homicide investigations.

Soon, Bulletproof's computer-based analytical capability will be available for the forensic examination of cartridge casings in addition to projectiles. This will make available for the first time a single, automated system capable of analyzing both types of ballistic evidence found at crime scenes. The Bulletproof system will be housed at ATF's regional laboratory here in Atlanta, and here at GBI headquarters. When the pilot program is expanded to San Francisco later this year, the foundation will be laid for a nationwide, computer linkup permitting the comparison of ballistic evidence obtained from disparate regions of the country. The potential benefits of a ballistics analysis examination with transnational capabilities, particularly in combatting organized crime and drug trafficking, are obvious.

Operation Ceasefire does not simply encompass the introduction of this cutting-edge ballistics technology, however. Ceasefire goes further, placing all of ATF's vast crime-fighting resources at the disposal of state and local crime-fighting organizations. This includes direct electronic access to ATF's National Tracing Center -- which provides round the clock tracing of firearms from the manufacturer to the purchaser, generating valuable leads for investigators; ATF's Forensic Laboratories -- which conduct firearms, toolmark and ballistics examinations for ATF and other Federal, state and local law enforcement agencies; and ATF's Firearms Technology Branch -- which provides expert technical support, including expert testimony regarding the identification and origin of firearms, and on other matters relating to firearms and the firearms industry.

ATF will provide direct investigative support by assigning special agents to work closely with their local law enforcement counterparts. The Ceasefire investigations will be conducted by a multi-agency task force composed of ATF agents, representatives of the GBI and representatives of the participating local police organizations.

On behalf of Treasury Secretary Bentsen, ATF Director Magaw, and myself, I would like to thank the Georgia Bureau of Investigation for devoting laboratory resources to the implementation of the Bulletproof ballistics analysis system, and for its commitment to the Ceasefire program in general. I also would like to thank our local crime fighting partners, the police departments of Cobb, Clayton, DeKalb, Fulton and Gwinnett counties, and the police departments of the cities of Atlanta, College Park, East Point and Forest Park for their participation in this initiative. The Atlanta Police Department deserves some special mention for its leading role in bringing the Ceasefire pilot program to Atlanta. Without the support of these organizations, Operation Ceasefire's mandate could not be fulfilled in Atlanta.

Just as Operation Ceasefire's success depends on the cooperative efforts of ATF and its local law enforcement counterparts, so too must the overall war against violent crime involve a coordinated effort at the Federal, state and local levels. President Clinton recognizes the need for such a collective approach to crime fighting. In fact, he has made it a defining principle shaping the Administration's anti-crime strategy. This principle is reflected in the Crime Bill presently in conference deliberations on Capitol Hill. The Crime Bill includes a wide array of initiatives designed to assist our state and local partners in attacking crime where it lurks. The Bill would put 100,000 additional officers on our streets, increasing dramatically our ability to prevent crime and illicit drug activity, to ensure that criminals are apprehended when crimes occur, and to return to our citizens the sense of security that has been taken from them. The Bill would ban further manufacture of the semiautomatic assault rifles and large capacity magazines which have become the murder weapons of choice of the gangs and the drug traffickers, and which have rendered our police outgunned and unprotected. The Bill would provide for an enormous increase in the investment that the Federal government makes in the states for alternatives to imprisonment, such as boot camps for youth offenders. And, the Bill would provide more assistance to the states to build and operate more correctional and detention facility space to get more violent offenders off our streets.

Through these initiatives, the Administration is seeking to structure a cohesive, comprehensive approach to curbing our nation's crime problem. President Clinton has urged us to use every resource at our disposal to assist our state and local partners in the campaign against crime. He has challenged Congress to make this possible by passing a tough, smart Crime Bill that channels much needed Federal resources into community policing. Operation Ceasefire exemplifies the President's strategy. We believe that the results the Ceasefire program generates will be but a foreshadowing of the large scale impact a cooperative, Federal, state and local approach can have on the crime problem plaguing this nation.

Thank you.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
June 23, 1994

Contact: Michelle Smith
(202) 622-2960

BENTSEN RELEASES TREASURY GATT STUDY

Treasury Secretary Lloyd Bentsen on Thursday said a new Treasury study shows the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) will be a net tax cut for U.S. consumers and a tax cut for the world as a whole that will amount to nearly $750 billion over the next decade.

"This is a huge global tax cut, the largest nominal dollar tariff cut in history. The United States will cut $32 billion in tariffs over the next decade as a result of GATT, and much of that will amount to a net tax cut for American consumers and businesses. Globally, our estimates are that tariffs will fall on industrial commodities alone by almost $750 billion over the same period," Secretary Bentsen said. "This will greatly help sell American products abroad and create good jobs at home."

The Treasury study, produced by the Office of the Assistant Secretary for Economic Policy, shows that one benefit from the Uruguay Round will be lower prices for American consumers, as well as expanded markets for America's high-value, high-skill export industries.

"It's a win-win proposition for us. American consumers will gain and American jobs will be created," Secretary Bentsen said.

"There are many benefits from the Uruguay Round: lower taxes on imports and on our goods sold abroad, new jobs at home, and higher incomes for American families -- collectively a compelling argument for its ratification," Secretary Bentsen said.

LB-911

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The Uruguay Round Is a Large Tax Cut

United States Treasury
Office of the Assistant Secretary for Economic Policy

June 23, 1994

The Uruguay Round and Taxes

The Uruguay Round commits almost all the world's trading nations to reduce tariffs and expand access to foreign markets. The Uruguay Round is a tax cut, reducing burdens on producers and consumers. Consumers and businesses who purchase foreign consumer goods, or foreign-produced inputs to their own production processes, will do so more cheaply as a result of the Uruguay Round.

The Cut in U.S. Taxes

The Office of Management and Budget projects[1] that the agreement will reduce United States tax revenues by a net total of $11 billion over the next five years, and by $20 billion over the subsequent five years.[2]

To meet the requirements of the Budget Enforcement Act, the Administration's proposed implementing legislation for the Uruguay Round will include offsets to match the notional net reduction in revenues resulting from tariff reductions. A portion of the tax cut for Americans contained in the Round's tariff reductions will be offset by *spending cuts*. Thus, the implementing package, taken as a whole, is a substantial net tax cut for the U.S.

Furthermore, the Uruguay Round is a powerful growth-promoting force for the U.S. and the world economy. Any such growth-promoting initiative tends to reduce the deficit.

Even though U.S. tariffs are technically taxes on foreign producers, foreign producers pass a large share of U.S. tariffs on to U.S. consumers. Treasury estimates that 80 percent of tariff reductions are received by American consumers and businesses in the form of lower prices for foreign-made consumer goods or foreign-made industrial inputs. 20 percent are received by foreigners in higher wages or after-tax profits.[3]

The Cut in Worldwide Tariffs

Twenty-six of the most important participants in the Uruguay Round made specific quantitative estimates of their reductions in tariffs on industrial commodities; these commitments average 3 percentage points on covered trade in industrial products—excluding intra-European Union and intra-NAFTA trade.

These 26 participants account for the bulk of tr.de, and the overwhelming bulk of the cuts in tariffs attributable to the Round. Covered trade in industrial commodities of these 26 participants is projected to amount to $2.2 trillion in 1995.

Tariff cut commitments range from 15 percent on covered industrial trade for India

[1]For scoring purposes, as required under the Budget Enforcement Act.

[2]Note that this net estimate includes, for example, offsets from higher income and corporate tax collections as businesses that find they can purchase imports more cheaply realize higher profits or pay higher wages.

[3]Note that just as foreign producers benefit to a degree from a reduction in tariffs charged by the U.S., so U.S. exporters benefit to a degree from a reduction in tariffs charged by foreigners. The U.S. is a low tariff country. The U.S. cuts its tariffs by less, in percentage terms, than foreigners cut theirs. Thus the benefits to U.S. producers' from foreign tariff reductions are larger than foreign producers' benefits from U.S. tariff cuts.

and 12 percent for Mexico to 0.1 percent for low-tariff Singapore and to zero for free-trade Hong Kong. The European Union, for example, offered to cut its tariffs on covered industrial trade by 2.3 percentage points. The U.S. offered a cut in its tariffs on covered industrial trade of 1.6 percentage points. And Japan offered to cut its tariffs on covered industrial trade is 2.5 percentage points.

Other participants have not yet calculated the tariff reduction value of their commitments. We project that their tariff cuts will, when measured in percentage-point reductions on covered industrial trade, match those of the 26 major participants who have reported offers.

Offered Tariff Cuts, in Percentage Points, on Covered Industrial Trade

India	15.0
Argentina	13.3
Mexico	12.1
New Zealand	11.6
Brazil	11.5
Australia	10.7
Thailand	9.9
Chile	9.8
Korea	9.4
South Africa	8.2
Iceland	6.8
Austria	4.7
Turkey	4.1
Canada	3.6
Malaysia	2.9
Finland	2.5
Japan	2.5
Philippines	2.4
Norway	2.3
European Union	2.3
Sweden	1.7
United States	1.6
Switzerland	1.0
Venezuela	0.4
Singapore	0.1
Hong Kong	0.0

Thus, world-wide, the implementation of the Uruguay Round agreement will lead to a three percentage point reduction in the average tariff on covered industrial trade. We also project that world trade will grow, measured in nominal values, at a pace of 7 percent per year, over the next decade.

Based on these projections, the total of tariff reductions for the world as a whole, over the next ten years, will be **$744 billion** on industrial commodities alone.[4]

Omitted Benefits

Note that this is a conservative estimate. It does not take account of reduced tariffs in agriculture, or in other sectors. Nor does it take account of the fact that a failure to ratify the GATT might well lead to a situation considerably worse than the relatively low-tariff status quo.

Moreover, the Uruguay Round includes major reductions in non-tariff barriers: quotas that keep American agricultural products out of Europe or Japan; restraint agreements that freeze market shares at past levels, and penalize productive exporters; restrictions on protection for intellectual property, and reduced barriers to trade in services as well. Yet these benefits are an extremely important part of the Uruguay Round.

One estimate places the value of one of these additional components—the increase in export revenues from protection of U.S.-owned intellectual property—at more than $11 billion a year *for the U.S. alone* in 2004.

Thus, $744 billion over ten years should be viewed as a lower estimate of the magnitude of the Uruguay Round worldwide tax cut. And even this—relatively conservative—estimate ranks the Uruguay Round agreement as one of the largest international tax cuts in history.

[4]Assuming that one-tenth of the cuts in average tariff rates are implemented in each of the next ten years. Note that because of slow inflation in the price level, the total ten-year tariff cut is smaller when measured in 1994 dollars—approximately $60 billion—and larger when measured in dollars of 2004's purchasing power—$800 billion.

The Uruguay Round Is a Large Tax Cut

Fact Sheet

Office of the Assistant Secretary for Economic Policy
U.S. Treasury

June 23, 1994

The Uruguay Round is a very substantial reduction in the taxes—tariffs—on international trade:

- The largest 26 participants in the Uruguay Round have promised an average three percentage point cut in tariffs on covered trade in industrial commodities—which will amount to $2.2 trillion in 1995. These 26 participants together account for more than 85 percent of world trade.

- We estimate that the total worldwide tariff cuts for industrial commodities alone will amount to **$744 billion** over the next decade—a $744 billion tax cut.

- This calculation leaves out market liberalizations in agricultural trade; estimates of world-wide agricultural tariff reductions vary, and are only a small part of the agricultural trade benefits of the Uruguay Round which focus on expanded market access and diminished non-tariff barriers. This calculation also takes no account of service-trade liberalization, or of intellectual property protection.

- Thus this calculation does not account for the Uruguay Round's stimulus to worldwide entrepreneurship and growth.

U.S. producers and consumers will receive their share of this world-wide tax cut:

- OMB projects, for scoring purposes required by the Budget Enforcement Act, that the Treasury will collect <u>$11 billion</u> less in revenues over the next five years, and <u>$20 billion</u> less over the subsequent five years.

- Since the revenue offsets under the Budget Enforcement Act will include spending cuts, the Uruguay Round is a net tax cut for American consumers and producers.

U.S. consumers and purchasers see lower prices on imports from reduced tariffs.

- U.S. producers will benefit from cuts in <u>foreign</u> tariffs, which tend to be higher than—and are cut by more than—U.S. tariffs.

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
June 21, 1994

STATEMENT OF
TREASURY DEPUTY ASSISTANT SECRETARY
SUSAN B. LEVINE
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT,
FINANCE, TRADE AND MONETARY POLICY
OF THE HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

Mr. Chairman, I want to thank you for the opportunity to address your subcommittee. You have asked us to testify on the implementation of the World Bank's new initiatives on information disclosure and on the establishment of the Inspection Panel. Before commenting on the implementation, I believe it is important to stress that the adoption of these initiatives, which occurred less than one year ago, is a great accomplishment. The leadership exercised by this committee, in close cooperation with Treasury and non-governmental organizations, was essential to these efforts.

And while we well know that there have been problems in implementation, we quite frankly expected this. These new initiatives will bring a dramatic change to the culture of the development banks. Such change does not come readily. Today I know you will hear a number of complaints about problems in implementing these new initiatives. I will touch on some of those myself. However, it is premature to draw conclusions on their success, based on the short history to date. What is clearly important is that the Bank has adopted these initiatives and is in the process of implementing them. I have assurances from the highest levels of Bank management that they are committed to this process.

LB-912

In this context Treasury is working to make sure that the Bank develops clear guidelines for staff to assist them in implementing the Bank's policies. I will spend some time in my testimony discussing what steps management is taking, and what steps we will encourage it to take, to ensure that these ground-breaking initiatives will be implemented.

Our discussion needs to be divided between the information policy, which has been in effect since August 26 of last year, and the inspection panel, which will not be operational until this August 1. I will therefore first discuss the information policy.

The information policy states that "there is a presumption in favor of disclosure, outside and within the Bank, in the absence of compelling reason not to disclose." The challenge facing an institution such as the World Bank, which engages in ongoing sensitive negotiations with governments, will be to manage the dynamic tension between the "presumption in favor of disclosure" and the "compelling reason not to disclose." Some of the things the Bank is doing or has plans to do we expect will mitigate this tension.

To facilitate access to information, on January 1 of this year the World Bank opened its Public Information Center at its Washington, D.C. headquarters, as required under the new disclosure policy. The information center issues monthly a "Complete List of Documents" which specifies all documents available and describes how to obtain them. While the NGO community had the greatest interest in the successful adoption of an information policy, it is noteworthy that the majority of users of the Public Information Center have come from the private sector. Businesses interested in World Bank contracts have recognized the value of having information early in the project cycle. In its first five months of operation, the Public Information Center received over 5400 requests for information from visitors, by telephone, mail, and fax, and via the Internet.

In addition, the Bank has set up information centers in London and Paris; a center in Tokyo is expected to be fully operational by the end of this month. World Bank resident missions in borrowing countries also serve as contact points for information. Increasingly, documents will also be available on-line, through the Internet system. We think this is an exciting opportunity and we hope to expand this trend dramatically. Already, certain early project information documents (the PIDs) can be accessed electronically for all projects in preparation. There have been 322 electronic inquiries through May 31.

We know that there have been some difficulties in getting information from the Public Information Center. In a number of cases, information has been placed in the information center late. This can preclude fully-informed public consultations at a point in the project cycle when they could have a substantive impact on the project. In our work with management, this point is a priority for improvement.

Regarding the Project Information Documents, it must be remembered that these documents did not exist prior to the adoption of the new disclosure policy and must now be written for all projects. At this point, I am comfortable that these documents are in place in the center. The focus now should be on ensuring that they have adequate coverage and quality. I urge the NGOs to assist us in determining where serious gaps in substance exist.

The main issue we seem to face with implementation is difficulty in determining what information is to be released on projects which the Board has not yet approved. Some requests for factual technical information on projects under preparation have been refused, we think at times incorrectly. Management has advised that the information center staff will start providing names of contacts for those seeking additional information not filed in the information center.

To a large extent, the non-release of certain types of "factual technical information" comes from ambiguity in the information policy itself. We are currently working with Bank management to clarify this.

As you may recall, there were serious efforts by NGOs to have the bank make available the early versions of the appraisal reports, the so-called yellow and green cover staff appraisal reports. This was not supported by most of the Board. The U.S. took a strong position in the negotiations that if the entire document could not be released, because of potential sensitive judgements or other information that might impinge on loan negotiations, then certainly the factual technical information which provided the basis for these reports should be released. We succeeded in convincing management and the Board that all non-judgement information, that is so-called factual technical information, should be made available.

The rationale for this seems clear to us, namely that informed consultation can happen only if those being consulted have adequate information. Bank policy clearly states that such factual technical information should be made available. I quote from the policy itself: "There will be instances where the availability of factual technical documents on projects under preparation can facilitate consultation. In such cases, upon request for additional technical information about a project, the Country Department Director responsible will, after consultation with the Government to identify any sections that involve confidential material or compromise Government/Bank interactions, release factual documents, or portions thereof, that provide inputs in the project preparation."

The problem, of course, which I am sure will be highlighted by others on the panel, is that many Bank managers have so far resisted providing the factual technical information on which early project documents are based. I should point out that the requests the Bank has received for factual technical information have often times been much too broad-based. I would advise those seeking information in the future to be specific about the nature of the information that they are seeking (for example, background of the implementing agency, alternative energy analyses, etc.).

It is my view that many of the problems will be addressed as the Bank produces its guidelines for the release of early project documents.

The Bank has already made progress in developing such guidelines. After going through several months of glitches in implementation - the Arun hydroelectric project in Nepal is perhaps the best-known case where information did not flow on a timely basis - senior Bank management issued several advisories to staff about the need to implement successfully the information policy. The latest, dated June 10, advised Country Department Directors that "Since the Disclosure Policy emphasizes that the Bank has a presumption in favor of disclosure, I urge you to encourage staff to be as constructive and transparent as possible in responding to requests for documents, particularly in regard to factual technical information. It is critical that the Bank live up to all the commitments contained in the new policy....Because determining release of factual technical documents has proven to involve a set of difficult judgements, we are currently preparing an Operational Memorandum setting out in more detail the Bank's procedures for dealing with requests for such information."

I believe that management is working to set the right tone and process for this policy. Management will have to continue to be vigilant in seeing that its policy is implemented. These guidelines will hopefully resolve outstanding issues and facilitate full implementation.

I do want to point out that while there have been lapses in the implementation of the new disclosure policy, increased access to information has begun to serve its most important purpose, which is to enhance beneficiary participation in the development of Bank projects. This is complemented by other work underway to ensure beneficiary participation in project identification, development, and implementation.

Turning to the World Bank's Inspection Panel, I am pleased to note that it will become operational on August 1. The creation of such a panel has been heralded by many, including NGOs, as a remarkable advancement. Members have been selected: they are Ernst-Gunther Broder (Germany), who will be chairman, Richard Bissell (U.S.), and Alvaro Umana Quesada (Costa Rica). Mr. Broder brings to the Panel extensive institutional experience from his work at the World Bank, the Kreditanstalt fur Wiederaufbau (Germany's foreign aid agency), and the European Investment Bank. Mr. Bissell has an extensive background in the academic and development fields. Mr. Umana brings to the Panel an impressive history of involvement in environmental issues; among his most recent accomplishments, he was responsible for the independent evaluation of the Global Environment Facility.

The Panel's budget ($1.5 million for FY95) has been set. The Panel has an Executive Secretary, who is a lawyer and is in the process of drafting administrative guidelines for the Panel. The Panel itself, however, will have final approval of the administrative guidelines. I have early assurances that the Panel understands the importance of consulting with the public on the administrative guidelines.

Some have expressed doubts about the Inspection Panel's independence, accountability, and potential effectiveness. I believe, however, that as long as the spirit, as well as the letter, of the resolution establishing the Panel are adhered to, it will fulfill its important purpose.

As we have seen from implementation of the information policy, it is important early on to set the right tone for how the panel will conduct its business. The panel has clearly been set up as the last stop, not the first stop in bringing complaints to the Bank. And we expect that there will be very clearly defined procedures for bringing complaints to the Panel. Complainants must first attempt to resolve their complaints through normal communication with the Bank. However, we believe it will be very important that potentially aggrieved parties not be prevented from bringing complaints to the Panel. And therefore we will urge the Panel to be liberal in determining who has standing to address complaints to it.

As we move into the next phase of implementation of the Bank's initiatives on information policy and the inspection panel, Treasury will continue to monitor progress closely. As you have already seen, we are strongly committed to these initiatives, and know they must be successfully implemented. We appreciate the close partnership of this committee and the NGO community in working with us to realize the successful implementation of these initiatives and look forward to the continuation of this partnership.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
June 23, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $16,591 million of 52-week bills to be issued June 30, 1994 and to mature June 29, 1995 were accepted today (CUSIP: 912794S88).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.03%	5.30%	94.914
High	5.04%	5.31%	94.904
Average	5.04%	5.31%	94.904

$1,435,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 57%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$49,976,654	$16,590,714
Type		
Competitive	$44,263,475	$10,877,535
Noncompetitive	973,179	973,179
Subtotal, Public	$45,236,654	$11,850,714
Federal Reserve	4,350,000	4,350,000
Foreign Official Institutions	390,000	390,000
TOTALS	$49,976,654	$16,590,714

An additional $130,000 thousand of bills will be issued to foreign official institutions for new cash.

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FOR IMMEDIATE RELEASE
June 24, 1994

STATEMENT BY TREASURY SECRETARY LLOYD BENTSEN

"Our actions today in cooperation with our G-7 partners and other monetary authorities reflect a shared concern about recent developments in financial markets."

"We look forward to continued cooperation to maintain the conditions necessary for sustained economic expansion with low inflation."

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PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
June 27, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $11,006 million of 13-week bills to be issued June 30, 1994 and to mature September 29, 1994 were accepted today (CUSIP: 912794N42).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.19%	4.29%	98.941
High	4.20%	4.31%	98.938
Average	4.20%	4.31%	98.938

$55,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 50%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$57,714,673	$11,006,141
Type		
Competitive	$52,219,787	$5,511,255
Noncompetitive	1,347,051	1,347,051
Subtotal, Public	$53,566,838	$6,858,306
Federal Reserve	3,152,835	3,152,835
Foreign Official Institutions	995,000	995,000
TOTALS	$57,714,673	$11,006,141

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

FOR IMMEDIATE RELEASE
June 27, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $11,033 million of 26-week bills to be issued June 30, 1994 and to mature December 29, 1994 were accepted today (CUSIP: 912794P65).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.59%	4.76%	97.680
High	4.60%	4.78%	97.674
Average	4.60%	4.78%	97.674

$180,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 53%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$43,527,538	$11,033,187
Type		
Competitive	$36,697,194	$4,202,843
Noncompetitive	1,053,780	1,053,780
Subtotal, Public	$37,750,974	$5,256,623
Federal Reserve	2,900,000	2,900,000
Foreign Official Institutions	2,876,564	2,876,564
TOTALS	$43,527,538	$11,033,187

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Text as prepared for delivery
June 28, 1994

TESTIMONY OF TREASURY SECRETARY LLOYD BENTSEN BEFORE THE SENATE ENVIRONMENT AND PUBLIC WORKS COMMITTEE ON SUPERFUND REAUTHORIZATION

Chairman Baucus, Senator Chafee, members of the Committee:

The Superfund is far more than just an environmental issue. It's an economic and social issue as well. We have identified and listed 1,300 priority Superfund sites. But fewer than 20 percent of them have been fully cleaned up. For every dollar spent, more than 25 cents goes to lawyers and transaction fees. The incentives in the system are all wrong. Instead of getting on with the job of cleaning up Superfund sites, we fight to keep from cleaning them up. The current system is just not working. We can and we must do better.

The Administration has spent considerable time over the last year finding what's wrong with the system and coming up with solutions. I know this committee has devoted a great deal of attention to the issue.

It has been frustrating. We all brought a number of different ideas and views to the table. It took a long time for everyone to understand everyone else's positions.

It was a difficult process -- but the final product is better for having had a fair and open hearing of everyone's views. We've had a lot of help from all the interested parties, and now we have a Superfund reauthorization proposal that addresses head on the most serious problems in the existing system.

I want to go over the most important points with you. First, the new allocation system is a major effort to apportion the responsibility for clean-up fairly and efficiently. For instance, there is generous funding for orphan shares. That way, one party doesn't get stuck paying someone else's bill.

It provides quick settlement for those who have made only a small contribution to the problem, for those who generate and transport municipal solid waste, and for parties who have a limited ability to pay.

In addition, and this is of importance to Treasury, it clarifies liability for lenders, and for innocent landowners.

I believe this proposal also will take a great deal of the contention out of the allocation process. For example, small businesses will be out early and without great expense. The large businesses that run most of the clean-ups will be treated far more fairly. And we should be able to spend less on litigation and more on cleaning up. That last point's important, particularly since we've been devoting far far too much to legal bills. That money ought to be used for cleanup, not for a "lawyers relief act."

What we've fashioned is a more coherent process to determine how to clean up sites. It will protect our health, and our environment. And it will do more -- it will save money.

Ask anyone. Our current system is fragmented and inconsistent. Everyone agrees that we should be able to clean up these sites at a substantially lower cost.

I look at it this way -- these sites are as much an economic hazard as they are a health hazard. These sites need to be redeveloped so they can add to the economic well-being of the communities where they're located, not be a drag on them. We need to put this land back on the tax rolls, back into production doing something constructive for the economy.

There's one other point I want to make. The Environmental Insurance Resolution Fund should go a long way to eliminating another source of waste in the existing system -- the constant wrangling over insurance coverage.

So far, our insurers have spent a great deal of money on Superfund, but just 12 cents on the dollar has gone into clean-ups. Half the money has gone to investigating claims and fighting coverage, and the rest has gone to defending policyholders.

That's a terrible record. I don't want to be too quick to assess blame because the legal landscape has been anything but clear.

That's why we came up with the Environmental Insurance Resolution Fund. It goes a long way toward removing the uncertainty of litigation from the picture. That allows us to save on the costs of settling coverage claims. And that money can be put to better use cleaning up communities instead of paying lawyers and consultants.

I know that no one is happy with every aspect of the proposed reauthorization bill. No one wants to have to invest scarce resources to clean up the problems of the past, but it has to be done. An enormous amount of time and effort has been invested in reaching the appropriate compromises on the difficult and delicate issues we faced. Everyone in the Administration is committed to streamlining the clean-up process, cutting costs and getting to more sites.

The time has now come to get on with passing the Superfund reauthorization. I believe the proposed bill goes a long way to address the shortcomings of the current system. The administration is happy to support it, and I would urge the committee to support it also.

Thank you.

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FOR IMMEDIATE RELEASE
June 28, 1994

Contact: Michelle Smith
(202) 622-2960

BENTSEN TO BRIEF ON NAPLES MEETINGS

Treasury Secretary Lloyd Bentsen will brief reporters at 2 p.m. tomorrow, Wednesday, June 29 in Room 3327, Main Treasury on the upcoming G-7 meetings in Naples, Italy.

Following the Secretary's on-the-record briefing, a senior Treasury official will brief on background.

The G-7 meetings in Naples will be July 8-10.

Press without Treasury, White House, State Department or Congressional credentials should contact Treasury's Office of Public Affairs at (202) 622-2960 with the following information: name, date of birth and social security number by 6 p.m. Tuesday.

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
June 28, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
FOREIGN POLICY ASSOCIATION
NEW YORK, NEW YORK

Over the weekend, I read a history on Bretton Woods. As you know, it's 50 years since the first discussions between Britain and the United States on what to do with the monetary system.

It turns out, at the meeting, somebody had written a verse on a piece of paper. They found it afterwards. The verse read: "In Washington Lord Halifax once whispered to Lord Keynes: It's true they have the money bag, but we have all the brains!"

Fifty years later, the money bag is missing. But if anyone finds it, the address to return it to is: U.S. Treasury Department, 1500 Pennsylvania Avenue, Washington D.C.

I want to talk about the dollar, about the upcoming G-7, and about GATT. But let me start by describing a personal policy I have.

Every time I go to a city and meet with foreign leaders, I go in with a list of things American businesses are trying to accomplish in that area.

Some people think that's not Secretarial like. But we have to open markets for our goods and services. The American people elected us to help create jobs, not to stand around like a potted plant at a photo op. That's why I do it.

You see, in the 1930s, before Bretton Woods, when Henry Morganthau was Treasury Secretary, one in 30 American jobs depended on trade. One in 30. Today, one in 13 do. Fifty years from now, when the Treasury Secretary speaks with this group, he or she will face a situation where probably one in five American jobs depend on trade.

We need to figure out how to get there. We need to figure out how to position America to compete in a world that 10, 20, 50 years from now won't look anything like it looks today.

For the past 50 years, we generally followed the same path -- we looked abroad, and we did so generously. We shared our market -- had it wide open. We shared our technology. Name some of the big technologies -- TVs, telephones, copiers -- how many of those were invented in Japan, Korea, or China?

We shared our education system. I meet with President Salinas and Finance Minister Pedro Aspe of Mexico. Or Finance Minister Domingo Cavallo of Argentina, who convinced his President Menem, a Peronista, to privatize companies, open markets, and lower tariffs. Or Chilean Finance Minister Eduardo Aninat, who is bringing an economic revolution there.

Where did they get their education? American graduate schools.

But where we went wrong is that we made political and military decisions -- without too much consideration for responsible economics. Do that too long, you become a victim to your strengths. You can't be a military and political leader, unless you're an economic leader. Ask the Russians.

I was at a Bilderburg meeting in France four years ago. A man rose and said: "Look at the great changes in the world. The end of the Cold War. Europe and Asia emerging as the world leaders. And America on the decline."

It's a little ironic that four years later, I head to a G-7 meeting in a week-and-a-half knowing this: that America makes up 40 percent of G-7 GDP, but in the past year we accounted for 75 percent of its growth.

After 50 years of looking abroad, we've changed. We're transforming. President Clinton came in and he looked at home, first. The policy is not to ignore foreign affairs. Let me make that clear. We're not ignoring foreign obligations. But we need to take care of serious economic problems at home.

Call that self-interest, but we're not staring at $300 billion deficits anymore. We've cut that by a third.

Call that self-interest, but 3.5 million jobs have been created. These are not government jobs. The federal payroll is down by 100,000 since 1992, and we'll cut another quarter of a million. In fact, I said that at a speech last month, and someone yelled out: "Praise the Lord."

One hundred government programs have been eliminated outright; 200 others have been cut; for the first time in 25 years, we've cut discretionary spending on the domestic side -- not just defense.

And these are non-events. Reporters hang onto every word I say on some subjects, but no reporter ever asked me: "How is Treasury operating with a reduced staff?" But there are about 6,000 fewer authorized positions at Treasury than the day I walked in the door.

Call it self-interest, but we've been able to keep inflation low. It was 2.3 percent in the first five months. Only one other time in the past three decades has it been that low. We've been able to reduce the government deficit enough to release much needed capital for private investment in America.

For eight quarters, American business has been investing in equipment at double digit rates. They've switched from debt to equity. They've refinanced long-term debt at lower rates. Labor/unit costs have shown very little increases.

There are jobs that won't come back. In previous cycles, they came back, but not now. We're looking to retrain people to use the new technologies. We need to support them -- but do it in a way that encourages work.

We've had the best record of economic performance in the G-7. Of course, looking at some of the markets, you wouldn't know it.

Recently, there's been a great deal of volatility. That's a major concern of mine.

Long-term bond yields usually rise in an economic expansion. I've watched our 10-year bond yields rise so far this year by more than I thought they would. But our bond yields haven't risen as much as long-term bond rates in Germany, France, England, Italy, and Canada. Even in Japan, with their recession, long-term bond yields are up about a full percentage point since the beginning of the year.

And this time, because of our deficit reduction, the deficit is not the culprit. I've heard no one blame rising interest rates on the deficit. So, yes, we'll see bond rates fluctuate, but not in a way that thwarts our recovery.

In the past week, there's been a lot of concern about the dollar. I'm concerned, too.

This is a difficult issue. It's one you need to watch over time. I've been in close consultation with Alan Greenspan, Chairman of the Federal Reserve. We've been in close consultation with our G-7 colleagues.

We believe a stronger dollar is better for our economy and better for the world's economy.

I know there are people who think we have some strategy in Washington of driving down dollars. Or using the dollar as some kind of bargaining chip.

Let me say clearly -- and I speak for the entire Administration -- this is not the case. The dollar is not a tool of our trade policy.

We do care about exporting more. But we want to achieve more exports by helping American producers, by opening markets, and by encouraging growth in foreign economies. Not by devaluing our currency.

No country can be indifferent to a fall in its currency, and the recent movements in the dollar could hurt recovery abroad. But nothing that has happened in the financial markets shakes my confidence in America's economic recovery and underlying soundness. Nothing.

I look around the world. And just as we're doing, many countries are transforming their economies for the future.

I'll tell you how I can tell. When I went to my first G-7 finance ministers meeting in London in February 1993, I was the freshman. Now, I'm the second most senior. When things are going badly, the Finance Minister is the first one over the side.

You really see the transformation process in Russia.

I never thought I'd see the day when half of Russian GDP is produced in the private sector. I'm encouraged with privatization, because Russia is finally developing entrepreneurs.

They've made progress on inflation -- down under 10 percent a month, from 20 percent. But that's still way too high. More has to be done.

And more has to be done on the legal environment for businesses. If they want to attract foreign investments, they need enforceable contract laws and a tax system that encourages investment.

The Russians will determine Russia's future. Sometimes there will be setbacks. After the election, the Russian Prime Minister Chernomyrdin said good-bye to the romanticism of the marketplace.

After that I had deep concerns. But I've seen a reversal on his part. Reform continues. It will continue. At the G-7 we'll be talking about that.

Japan has tried to transform. They're in the process of changing governments for the fourth time, since I've been in office. I don't think they ever faced a recession like this one.

Japan's economic outlook is not as bad as it was last year. But consumer spending has only just begun to strengthen. Private investment is still falling. Recovery must be led by domestic demand.

At the G-7 meeting, we'll again be encouraging Japan to stimulate their economy. And they've committed to reducing their trade imbalance with other countries, especially us.

No way can we lower our trade deficit, unless we solve our problem with Japan. The trade deficit is one of our most serious domestic problems. And we're going to be working with Japan on this. In terms of market openness, Japan is not there. And they know it.

The Europeans are trying to transform. Since President Clinton took office, the Bundesbank has dropped interest rates more than 3.5 percentage points.

A moderate recovery is under way. But it's not strong enough to reduce the unemployment lines. When you face 12 percent unemployment, they must structurally change. And they know that.

I was at the OECD earlier in the month. They're preparing specific policy recommendations individual countries can use to get people back to work.

Look at the rest of the world. Look at the emerging markets. Look at Latin America. Look at the transformation of their economies, as they try to produce solid growth, and lower inflation, and restructure international debt, and reduce budget deficits.

Of course, if every country reshapes itself, if every country does what's in its own self interest -- some say that will lead to protectionism. That will lead to walls. That will lead to friction. That will bring us back 60 years to Smoot-Hawley, when we had tariffs in this country of 55 percent.

I don't buy that. Anybody who tells you that probably never spent a day in his life in another country in recent times.

Sure you're going to have problems. You're going to have arguments. But I'm optimistic about the world, because there isn't one country calling the shots anymore. Opportunities are all over the globe, particularly in the emerging world.

By the year 2000, even leaving Japan out, 75 million households in Asia will be middle-income households.

Where was the fastest growing car market last year? Not North America. Not Europe. Leaving out Japan, it was Asia. Who would have thought when you ask smokestack Detroit where their next hot car market will be, they'd say India?

I was in Asia in January. When you're standing on a new bridge in Shanghai, or you're watching in Bangkok businessmen use cellular phones because the traffic is so horrible it's easier to call than to meet -- you realize what the California Gold Rush in the 1800s must have looked like.

One of the biggest problems emerging countries face is infrastructure -- building roads, bridges, water plants, airports. Over the next decade, in Asia, they'll be spending a trillion dollars in infrastructure.

In March, I hosted a meeting of 18 Finance Ministers from the Asia-Pacific area. An APEC meeting. We had much to talk about, insofar as encouraging private sector investment in infrastructure projects.

We agreed to have a conference on the topic, and we have found since then that there is so much interest, we are having not one, but two conferences. In Jakarta. And in Beijing.

The governments will be the facilitator, but the private sector will be the ones doing the talking -- as it should be.

Where do we go from here? I think free trade agreements are the avenue. It's no longer a question of will we do them. It's a matter of when, and how, and who's next?

We learned two lessons from NAFTA. One, we learned Americans have serious concerns when we sign up for free trade agreements. They need to be fair. Not just free, but fair.

Two, we learned they work. This year, with NAFTA, American exports to Mexico are up. Mexican imports to America are up. That's fair.

Next up is GATT. It'll cut global tariffs by one-third. It's worth five NAFTAs to us -- that's how big it is.

Treasury will release a study this week that shows GATT will create 500,000 jobs in our country. Ten years from now, we think the U.S. will export an extra $150 billion per year because of GATT. And as a result of GATT the average family of four will see its wages boosted by $1,700 a year or more.

Yet I have the Chancellor of the Exchequer from England, I have the Finance Minister of France, I have the Finance Minister of Germany -- all calling me and saying: "Lloyd, is it possible? Is it possible that the United States would not ratify GATT?"

They're asking because there's a catch to GATT. GATT will take $11 billion in lost revenues from the budget. And under the budget rules, we have to make that up.

We get no credit that once business expands because of GATT more revenues come in. No credit that over the next decade, because of the increase in business, this could reduce the deficit by $60 billion.

They don't have such provisions in the budgets of England, France, and Germany. Only us.

Having been in the Senate, I know what happens if you waive the budget for GATT. It's a slippery slope down.

I tell those finance ministers, it'll pass. We'll find the money. It will be tough, but we'll find it. We'll find it because America's first priority is to get our economy on a sound basis. To create jobs. And to stop the red ink. Isn't that what GATT does? It creates jobs, and it reduces the deficit.

We've just come full circle, haven't we? Domestic and foreign policy have just united. I'm proud to be a part of that.

Will we see setbacks in the world? Of course. Will transformations bring hardships? Of course. But if we make the right economic choices now, America will see a world where commerce is king.

I'll end with this. Earlier this month, I was with the President in Europe for the D-Day Ceremonies. What a moving experience, and a great honor to be there.

And I thought, what would the world be like today, if instead of having sent soldiers and airmen we could have sent to Europe planes and ships filled with consumer goods? That's the kind of world I want in the future.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
June 28, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $24,000 million, to be issued July 7, 1994. This offering will result in a paydown for the Treasury of about $1,925 million, as the maturing weekly bills are outstanding in the amount of $25,929 million.

Federal Reserve Banks hold $6,360 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $2,152 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

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

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

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Attachment

LB-920

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JULY 7, 1994

June 28, 1994

Offering Amount	$12,000 million	$12,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 N5 9	912794 P7 3
Auction date	July 5, 1994	July 5, 1994
Issue date	July 7, 1994	July 7, 1994
Maturity date	October 6, 1994	January 5, 1995
Original issue date	April 7, 1994	July 7, 1994
Currently outstanding	$12,823 million	---
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

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

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

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

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

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

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
June 29, 1994

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN
BACKGROUND SESSION ON G-7 SUMMIT IN NAPLES, ITALY
WASHINGTON, D.C.

This will be my eighth visit with the finance ministers and our second summit. In Naples, we'll look at our progress to date and see where we go from here.

We're beginning to see signs of economic renewal in the G-7, Eastern Europe, and Russia. We're encouraged by that. But our major concern continues to be economic growth.

We're in much better shape than we were in Tokyo, when many of the G-7 economies were still deteriorating. The strategy we put in place last year is working -- for the U.S. to cut our budget deficit, for Europe to cut interest rates, and for Japan to stimulate its economy.

As a result, G-7 economies will grow 2 1/2 percent this year, vs. growth of less than 1 percent last year.

The United States has done particularly well. We account for 40 percent of G-7 GDP, but 75 percent of its growth. We've added almost 3 1/2 million jobs. And we're on course to have the second lowest budget deficit among the group in 1995.

Europe has begun a moderate recovery. They still face 12 percent unemployment rates, but hopefully that will change, and the sooner the better.

In Japan, we're hopeful that the worst of the slowdown is over. I'm optimistic that over time we'll make substantial progress in opening Japan's market.

And I'm encouraged by the underlying fundamentals. G-7 inflation is rising at a slower rate than at any time since the early 1960s. Long-term interest rates are up, because expectations of a stronger recovery have taken hold. But at this point, I don't see the rise in bond yields threatening growth.

LB-921

Beyond growth, there will be a heavy emphasis on jobs. The President feels very strongly on this one. In Tokyo, he urged that the G-7 hold a summit on jobs. We did in Detroit. There, we committed to take on the structural aspects of unemployment, and we've reached a consensus on how to do so -- more flexibility in labor markets, investment in education and training, open trade policies, and support of economic policy.

I'm also encouraged because between Tokyo and Naples, we accomplished what some thought we couldn't. We successfully completed a GATT agreement.

Russia will again be an important area of discussion. A great deal has happened between the Tokyo and Naples summits. We're seeing tangible signs of progress. Inflation is down and privatization continues at a fast clip. Some of that is due to the assistance strategy we set up in Tokyo and the work the IMF is doing. We've worked hard with the IMF and Russia to make that relationship work.

But Russia must do more to stabilize its economy. We'll talk about that. We'll talk about initiatives for several of the ex-Soviet states. And we'll talk about how the IMF can continue to play an active, constructive role.

In fact, we'll be talking about all of the international economic institutions -- how they can cooperate, and their role in the future of transition economies.

Before I open it up to questions, I want to repeat something I said last night in New York. I'm concerned about the dollar.

This is a difficult issue. It's one you need to watch over time. I've been in close consultation with Alan Greenspan. We've been in close consultation with our G-7 colleagues.

We believe a stronger dollar is better for our economy and better for the world's economy.

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TRANSCRIPT OF PRESS BRIEFING BY TREASURY SECRETARY LLOYD BENTSEN AND A SENIOR TREASURY OFFICIAL ON G-7 SUMMIT IN NAPLES, ITALY

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C.

WEDNESDAY, JUNE 29, 1994

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June 30, 1994

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of May 1994.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $116.1 billion on May 31, 1994, posting a decrease of $2,293.7 million from the level on April 30, 1994. This net change was the result of a decrease in holdings of agency debt of $1,658.4 million, a decrease in holdings of agency assets of $716.3 million, and an increase in holdings of agency-guaranteed loans of $81.0 million. FFB made 14 disbursements during the month of May, and refinanced ten REA-guaranteed loans. FFB also received 20 prepayments in May.

Attached to this release are tables presenting FFB May loan activity and FFB holdings as of May 31, 1994.

LB-922

FEDERAL FINANCING BANK
MAY 1994 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE	
GOVERNMENT - GUARANTEED LOANS					
GENERAL SERVICES ADMINISTRATION					
GSA Refinancings	5/10	$7,908,784.83	3/25/05	7.243%	S/A
ICTC Building	5/16	$9,102,035.40	11/2/26	7.678%	S/A
Foley Square Courthouse	5/18	$15,645,628.00	12/11/95	5.804%	S/A
Memphis IRS Service Cent.	5/18	$4,228,415.49	1/3/95	5.066%	S/A
Foley Services Contract	5/19	$356,464.00	12/11/95	5.746%	S/A
Foley Services Contract	5/20	$393,865.52	12/11/95	5.642%	S/A
HCFA Headquarters	5/20	$5,494,034.00	6/30/95	5.331%	S/A
Atlanta CDC Office Bldg.	5/23	$148,716.00	9/1/95	5.487%	S/A
Oakland Office Building	5/25	$1,147,951.00	9/5/23	7.545%	S/A
Foley Square Office Bldg.	5/26	$9,430,667.00	12/11/95	5.831%	S/A
RURAL ELECTRIFICATION ADMINISTRATION					
+Allegheny Electric #908	5/13	$2,735,266.95	9/30/94	4.696%	Qtr.
+Allegheny Electric #908	5/13	$3,216,546.29	9/30/94	4.696%	Qtr.
+Allegheny Electric #908	5/13	$4,590,079.80	9/30/94	4.696%	Qtr.
+E. Iowa Coop. #909	5/13	$1,842,929.13	1/3/17	7.511%	Qtr.
+E. Iowa Coop. #909	5/13	$1,884,829.30	1/3/17	7.511%	Qtr.
+E. Iowa Coop. #909	5/13	$2,378,001.10	1/3/17	7.511%	Qtr.
+E. Iowa Coop. #909	5/13	$1,610,186.74	1/3/17	7.511%	Qtr.
+E. Iowa Coop. #909	5/13	$2,208,449.35	1/3/17	7.511%	Qtr.
+E. Iowa Coop. #909	5/13	$3,343,638.76	12/31/19	7.541%	Qtr.
+Northwest Iowa Power #907	5/13	$8,134,388.05	9/30/94	4.696%	Qtr.
Anoka Electric Coop. #377	5/16	$11,471,000.00	12/31/25	7.564%	Qtr.
Oglethorpe Power #335	5/17	$50,000,000.00	7/1/96	6.164%	Qtr.
Alabama Electric #334	5/18	$105,000.00	1/3/22	7.334%	Qtr.
Guam Telephone Auth. #371	5/25	$181,000.00	12/31/14	7.399%	Qtr.

S/A is a Semi-annual rate: Qtr. is a Quarterly rate.
+ 306C refinancing

FEDERAL FINANCING BANK
(in millions)

Program	May 31, 1994	April 30, 1994	Net Change 5/1/94-5/31/94	FY '94 Net Change 10/1/93-5/31/94
Agency Debt:				
Department of Transportation	$ 664.7	$ 664.7	$ 0.0	$ 664.7
Export-Import Bank	4,847.1	4,847.1	0.0	-947.5
Resolution Trust Corporation	27,402.3	27,402.3	0.0	-4,285.4
Tennessee Valley Authority	4,675.0	6,075.0	-1,400.0	-1,650.0
U.S. Postal Service	9,473.1	9,731.5	-258.4	-258.4
sub-total*	47,062.2	48,720.6	-1,658.4	-6,476.7
Agency Assets:				
FmHA-ACIF	7,998.0	8,393.0	-395.0	-910.0
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	25,451.0	25,771.0	-320.0	-585.0
DHHS-Health Maintenance Org.	30.9	30.9	0.0	0.0
DHHS-Medical Facilities	45.0	46.2	-1.2	-6.4
Rural Electrification Admin.-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	1.2	1.4	-0.1	-1.6
sub-total*	41,800.0	42,516.3	-716.3	-1,502.9
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	3,919.1	3,937.6	-18.6	-164.3
DEd.-Student Loan Marketing Assn.	0.0	0.0	0.0	-4,790.0
DEPCO-Rhode Island	0.0	0.0	0.0	-30.4
DHUD-Community Dev. Block Grant	115.1	115.8	-0.6	-16.2
DHUD-Public Housing Notes	1,746.5	1,746.5	0.0	-54.5
General Services Administration +	1,902.0	1,855.8	46.2	316.3
DOI-Virgin Islands	22.2	22.2	0.0	-0.7
DON-Ship Lease Financing	1,479.6	1,479.6	0.0	-48.7
Rural Electrification Administration	17,418.6	17,359.5	59.1	-234.6
SBA-Small Business Investment Cos.	69.2	70.2	-1.0	-21.2
SBA-State/Local Development Cos.	542.2	546.1	-3.9	-34.2
DOT-Section 511	15.7	15.9	-0.2	-1.2
DOT-WMATA	0.0	0.0	0.0	-177.0
sub-total*	27,230.2	27,149.2	81.0	-5,256.8
grand-total*	$116,092.4	$118,386.1	$-2,293.7	$-13,236.4

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

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FOR IMMEDIATE RELEASE
June 30, 1994

Contact: Michelle Smith
(202) 622-2960

BENTSEN ANNOUNCES BENEFITS TO U.S. ECONOMY FROM GATT

Treasury Secretary Lloyd Bentsen on Thursday said a new Treasury study shows passage of the Uruguay Round will generate hundreds of thousands of U.S. jobs and extra income for American families.

"The study tells us that over the next decade passage of the Round will increase exports about $150 billion, create about 500,000 new American jobs and increase America's income by about $1,700 per family per year," Secretary Bentsen said.

The Treasury study on the Uruguay Round of the General Agreement on Tariffs and Trade was produced by the Office of the Assistant Secretary for Economic Policy. It shows that expanded protection for intellectual property and other improvements in the trade regime for services will further boost American exports, national product and income. Additionally it projects that increased investment due to expanded markets will produce gains in U.S. standards of living.

"Our studies show that the expected boost in U.S. employment will be primarily in good, high-wage, high-skill jobs. Few legislative actions could do as much for the well-being of the average American as ratifying the Uruguay Round," Secretary Bentsen said.

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LB-923

DEPARTMENT OF THE TREASURY

WASHINGTON

Benefits from GATT's Uruguay Round for the American Economy
Fact Sheet

Office of the Assistant Secretary for Economic Policy, U.S. Treasury

June 30, 1994

Analysts cite several sources of gains to the U.S. economy from the Uruguay Round:

- **Merchandise Trade Efficiency Gains:** the boost to U.S. productivity because, with reduced barriers to merchandise trade under the Uruguay Round, the United States economy can concentrate a larger share of its production in workers in high-skill, high-value goods-producing sectors.

- **Service and Intellectual Property Efficiency Gains:** the boost to United States productivity because, with improved trade in services and protection of intellectual property, the United States economy can expand employment and production in high-skill high-value service- and idea-producing sectors.

- **Dynamic Gains:** the boost to standards of living in the United States from increased investment set in motion by expanded access to markets. Increased investment will boost productivity; world-wide competition will give consumers lower prices.

- **Rules Changes** to improve the world trade system will decrease risk and lower barriers to the expansion of high-value export industries.

Several studies have found net benefits to the U.S. of 0.4 to 1.2 percent of GDP.

- These are the merchandise trade gains alone. The efficiency merchandise trade gains are the only gains that are captured by economists' models—and the models fail to adequately count up even these gains.

- The values of the other two major sources of net benefits from GATT—the service and intellectual property gains, on the one hand, and the dynamic gains on the other—are hard to quantify; we estimate that they are the same order of magnitude as the merchandise trade efficiency gains.

- We hope that independent economists, modellers, and experts will produce estimates of the value of the other two components this summer.

There is reason to believe these other two sources are as important as the first.

- Thus our best, albeit preliminary, estimate of the long-run benefits to the U.S. from the Uruguay Round is $100 to $200 billion a year in added income: the GATT is worth five NAFTAs.

- If three quarters of the income gains take the form of productivity increases, and one-quarter the form of increases in employment, then 300,000 to 700,000 more people will be at work in a decade because of the Uruguay Round.

DEPARTMENT OF THE TREASURY
WASHINGTON

Benefits from GATT's Uruguay Round for the American Economy

United States Treasury
Office of the Assistant Secretary for Economic Policy

June 30, 1994

Economic Benefits of the GATT Round

Negotiations under the aegis of the General Agreement on Tariffs and Trade [GATT]—the Uruguay Round—have reached an agreement that further expands American access to world markets. The U.S. gains substantially—both in income and in employment.

Preliminary estimates, based on academic assessments prior to the conclusion of the Uruguay Round, suggest that ten years after implementation of the Uruguay Round agreement, United States total annual incomes should be greater by $100 to $200 billion.

According to the Administration's range of estimates:

- The total boost to Americans' incomes and production will amount, in ten years, to at least $1,700 per family of four per year (measured in 2004 dollars).
- Improved market access—lower tariffs and reduced non-tariff barriers—will expand, employment, investment, and production in high-value sectors. Expanded merchandise exports will amount to $150 billion per year by 2004.
- Expanded protection for intellectual property, and other improvements in the trade régime for services, will further boost United States exports, national product, and incomes.
- Better opportunities from expanded trade will boost investment. Americans will invest more in the factories that produce our principal exports, and invest more in their own skills and education because of the opportunities opened by increased access to overseas markets.
- Changes in the rules governing international trade—better dispute settlement mechanisms, new rules on import licensing, and so forth—will decrease risk, and expand production and employment in high-wage export industries.
- Higher wages will pull more people into the labor force. The $100 to $200 billion of added GDP in 2004 will boost employment by 300,000 to 700,000, as our export industries grow rapidly.[1]
- Moreover, the boost to employment will be primarily in good, high-wage high-skill jobs. Expansion of our export sectors leads to a disproportionately large expansion in the number of high-paying jobs.

Few legislative actions could do as much good for the economic well-being of the average American as successful Uruguay Round ratification.

Previous Studies of the Round

To date, a number of academic studies have examined the Uruguay Round, largely estimating the long-run "static" gains to productivity from increased merchandise trade as a result of the Uruguay Round. These

[1] Assuming the economy is near full employment in 2004. If there is substantial macroeconomic slack, then the employment boost could be several times higher.

studies—completed before the final agreement was reached, and thus based not on what the agreement was but on various forecasts of the agreement—conclude that the gains to the United States economy would be in the range of 0.4 to 1.2 percent of national product, assuming the agreement were fully phased-in in the early 1990s.[2]

For example, François, McDonald, and Nordstrom (working for the GATT) calculated that in their general-equilibrium model the long-run productivity gains to the United States economy from expanded merchandise trade amounted to some $60 billion a year (or roughly 1.2 percent of GDP). Nguyen, Perroni, and Wigle (writing in the *Economic Journal*) estimated such gains as 0.8 percent of GDP a year.[3] A preliminary OECD study of the likely benefits from the Uruguay Round estimated such gains to the United States at 0.4 percent of GDP a year in the long run.

All of these studies provide only *partial* estimates of the boost to U.S. productivity. These studies fail to capture a substantial share of the merchandise trade efficiency gains. The models do not adequately capture the detailed shifts in trade within the manufacturing sector, and do not account for many current non-tariff barriers to merchandise trade. Hence, the models cannot take account of the benefits of *lowering* such non-tariff barriers.

These "efficiency gains" from increased merchandise trade are understated in the standard economic models, and are in any event only one of the sources of gains to the United States economy from the Uruguay Round—albeit the only one that economists can confidently model.

In addition to merchandise trade efficiency gains, the Uruguay Round will also produce:

- **Service and intellectual property gains:** United States productivity and incomes are further increased because the Uruguay Round reduces barriers to trade in *services*, and protects United States intellectual property. As a result, the United States economy has expanded opportunities to produce for, and can create jobs and expand production in, the high-skill, high-value service- and idea-producing sectors.

- **"Dynamic" gains:** the Uruguay Round will induce:

  - Increased investment in the United States as a result of increased profits from exports; increased investment boosts productivity and incomes.

  - Increased world-wide competition and the erosion of monopoly power, which will put downward pressure on markups and profit margins, and thus benefit consumers. Competition will improve the efficiency of producers in the long run.

- Benefits from **rules changes:** increased flows of trade because of improvements in dispute resolution, better rules to govern international trade, and consequent reductions in uncertainty and political risk are a major—though hard to quantify—portion of the benefits expected to flow from the Uruguay Round.

There is good reason to believe that (i) the gains from increased trade in services and the improved régime governing intellectual property, and (ii) the "dynamic" gains are as, if not more, important for the long-run health of the United States economy than the merchandise trade efficiency gains on which economists have concentrated.

Assessing the Overall Impact

Combining independent economists' estimates of the merchandise trade "efficiency gains" from the Uruguay Round—0.4 to 1.2 percent of GDP—with assessments of the

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[2] Some have reported lower estimates; such studies, however, adequately capture only a portion of the benefits from the Uruguay Round—for example, the benefits to agriculture.

[3] Another Perroni and Wigle study, published in *World Economy*, estimated productivity gains from expanded merchandise trade at 1.7 percent of U.S. GDP. The larger estimate, however, may have assumed a more comprehensive GATT agreement than was in fact reached.

likely range of the quantitative benefits that have escaped economists' traditional models leads to an assessment that by 2004, when the long-run benefits from Uruguay Round implementation will have largely been realized, United States GDP is likely to be \$100 to \$200 billion a year higher as a result of the Uruguay Round.

Such benefits would amount to at least \$1,700 per family of four per year—a substantial boost to family purchasing power. Some of this boost would come through higher real wages, a small part through higher returns on assets, and a large part through lower prices on goods on which tariffs have been reduced—or on which quotas have been removed.

Higher real earnings will boost employment. Because workers will be more productive, firms' demands to hire workers will rise. Because wages and real earnings will be higher, more people will enter the labor force and seek work.

Estimates of the extra employment induced by long-run boosts in real earnings vary: a one percent long-run rise in real earnings increases total employment by between 0.1 and 0.4 percent.

Should the Uruguay Round boost real GDP in 2004 by \$100 to \$200 billion, then—using 0.2 as the estimated responsiveness of employment to higher incomes—300,000 to 700,000 additional Americans would be at work in 2004 because of the Uruguay Round.

Regional and Industrial Distribution

The bulk of benefits from the Uruguay Round will flow to states that produce the service exports and the high-tech industrial machinery in which the United States has the greatest comparative advantage on world markets. Note that many states and industries that we do not usually think of as "export" industries will benefit. Recall that an automobile manufacturer produces at most one-quarter of the value of a new car: the rest of the value is added earlier in the production process, by businesses and workers outside of the auto industry from which auto companies purchase inputs and supplies.

California should benefit to the tune of at least \$16 billion a year in income; New York and Illinois should benefit each by \$6 billion in income; North Carolina by \$4 billion; and so on.

The magnitude of the opportunity to raise production and employment in high value-added sectors is made clear by examining the fastest-growing U.S. exports over the past decade.

Between 1985 and 1993, the United States boosted annual exports of electrical machinery by \$31 billion, of road vehicles by \$22 billion, of other transport equipment—making largely airplanes—by \$18 billion, of computers and office machinery by \$16 billion, of power generating machinery by \$10 billion, of telecommunications equipment by \$10 billion, and so on.

All of the United States' most successful export industries are high-skill, high-wage, capital-intensive, and high-tech industries—making the products that Americans should produce as much as possible to guarantee a high standard of living for Americans today, and a rapidly rising standard of living for Americans tomorrow. America can continue to expand production and employment in these sectors only if we keep expanding trade.

The expansion in exports since 1985 accounts for \$152 billion of increased annual production in these sectors today—production that would not exist had trade not expanded—and equals 2.5 percent of everything produced in the United States today.

Conclusion

Tariff reductions in the Uruguay Round are smaller than in NAFTA—a reduction of somewhat more than 3 percentage points on tariffs imposed on industrial commodities trade covered by the round. But the trade flows are so much larger and affect so many more countries that, even from the narrow perspective of its effect on the United States economy is alone, the Uruguay Round is worth roughly five NAFTAs.

If the United States is to see rapid economic growth over the next decade, it must take advantage of every opportunity to use the skills of its workforce and the capabilities of its machines and firms. We must, as much as possible, expand production and employment in high-value activities.

World trade provides one of the best opportunities for United States citizens to upgrade their jobs by expanding our economy's reliance on high-skill, high-value tasks and processes. The United States has and should reinforce its dominant international market position producing capital goods that the Third World must purchase to industrialize, and its dominant international market position in those service-sector exports that are a rapidly-growing part of high-value world trade.

Each step toward further trade liberalization enables further boosts to United States productivity, and increases the opportunity for Americans to use their skills and capabilities to the fullest extent.

Moreover, a failure to take this step toward trade liberalization could have dramatic consequences. Assessments of the value of the Uruguay Round assume that, absent ratification, the world trading system would continue with business-as-usual. But many countries have resisted protectionist pressures over the past ten years in anticipation of a favorable Uruguay Round deal. How many countries would continue to resist such pressures in the future if ratification failed is uncertain at best.

Failure to ratify the Uruguay Round could see a slowdown if not a stop to multilateral trade liberalization, and substantial motion away from an open, liberal global economy to a closed, protectionist world trading system. For this reason, even the *economic*—let alone the political—stakes at risk in Uruguay Round ratification may be much larger than estimated here.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
June 30, 1994

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN

I am pleased that Mr. Fiske's thorough investigation of Treasury officials' actions has ended. As I have said before, I have the highest regard for the integrity of these officials, and therefore, today's positive report comes as no surprise to me.

Because it was important to this process that Mr. Fiske have prompt access to our materials, I made it clear from the outset that we would go to extraordinary lengths to assist the Independent Counsel. We conducted an extensive search of departmental records and turned over thousands of pages of documents. In addition, IRS investigators searched the offices and computers used by senior Treasury officials. We did everything possible to allow the Independent Counsel to complete his investigation as thoroughly and as rapidly as possible.

When this matter first came up, I asked the Office of Government Ethics to look into it to see if any ethics issues or conflicts arose from the actions of Treasury Department officials. In addition, the OGE asked the Treasury Inspector General to assist in fact-finding. At Mr. Fiske's request, the IG and OGE independently agreed to wait until the completion of Mr. Fiske's investigation.

Now that Mr. Fiske's examination has been completed, I renewed my request to the OGE today to examine the matter, and I asked the Treasury IG to assist in the inquiry. I urged that this review be completed as quickly as possible, and I look forward to the findings. They will have our complete cooperation, as will the Congress.

I have confidence in the excellent team at Treasury. There is important work to be done, and I want to put this matter fully behind us.

-30-

LB-924

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ETARY OF THE TREASURY

June 30, 1994

The Honorable Stephen D. Potts
Director
Office of Government Ethics
Washington, D.C. 20005-3917

Dear Mr. Potts:

Today, Independent Counsel Robert Fiske announced that he has completed his investigation as it relates to contacts between White House and Treasury officials concerning the Resolution Trust Corporation and its work with respect to Madison Guaranty Savings and Loan Association. It is my understanding that this removes any objection he has raised to steps OGE might take in response to my March 3, 1994 request that you review these contacts. Accordingly, I ask that you now begin your review. Because you have informed me that you will base your review, in part, on fact-finding by Treasury's Office of Inspector General, I have urged the Office of the Inspector General to begin his inquiry immediately and to provide you with all assistance in its power.

Please provide me with your views and advice as soon as possible. I would greatly appreciate receiving them prior to the Congressional committee hearings on these contacts. Thank you, again, for your attention to this important matter.

Sincerely,

Lloyd Bentsen

Lloyd Bentsen

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

TARY OF THE TREASURY

June 30, 1994

MEMORANDUM FOR ROBERT P. CESCA
DEPUTY INSPECTOR GENERAL

FROM: LLOYD BENTSEN

SUBJECT: *Investigation of White House-Treasury contacts concerning Madison Guaranty Savings and Loan Association*

Today, Independent Counsel Robert Fiske announced that he has completed his investigation as it relates to contacts between White House and Treasury officials concerning the Resolution Trust Corporation and its work with respect to Madison Guaranty Savings and Loan Association. It is my understanding that this removes any objection he previously raised to your providing assistance to the Director of the Office of Government Ethics in his review of these contacts. Accordingly, please begin your inquiry immediately. I would greatly appreciate it if you would take whatever actions are necessary to ensure that the Director receives your report in sufficient time to provide me with his views and advice prior to the Congressional committee hearings on this matter.

U. S. Department of Justice

Office of the Independent Counsel

1001 Pennsylvania Avenue, N.W.
Suite 490-North
Washington, D.C. 20004

202-514-8688

June 30, 1994

The Honorable Lloyd M. Bentsen
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Ave., N.W.
Suite 3330
Washington, D.C. 20220

Dear Secretary Bentsen:

This is to advise you that we have completed our investigation into the contacts between the White House and Treasury Department officials. Accordingly, we have no objection to the Office of Government Ethics resuming the investigation which was suspended at our request.

We thank you very much for your cooperation in this matter.

Sincerely yours,

Robert B. Fiske, Jr.
Independent Counsel

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
June 30, 1994

STATEMENT BY TREASURY SECRETARY LLOYD BENTSEN

Today's vote by the House Ways and Means Committee is an important step in the health care reform debate. The panel met its deadline. Chairman Gibbons and members of the committee are to be congratulated for assembling a comprehensive health care reform package that guarantees health insurance coverage to every American.

If we work together over the next few weeks, we'll have a bill later this year that President Clinton can be proud to sign. It won't be easy but I'm confident we'll get it done.

-30-

LB-925

Report to the Congress
on

Nonhighway Recreational Fuel Taxes

Department of the Treasury

June 1994

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

JUN 30 1994

The Honorable Sam Gibbons
Acting Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Section 8003 of Public Law 101-240, the Intermodal Surface Transportation Efficiency Act of 1991, provides that the Secretary of the Treasury shall, within a reasonable period after the close of each of fiscal years 1992 through 1996, submit a report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate specifying his estimate of the amount of nonhighway recreational fuel taxes received in the Treasury during such fiscal year.

Pursuant to that section, I hereby submit "Nonhighway Recreational Fuel Taxes" for fiscal years 1992 and 1993.

I hope you will find this report informative. I am sending a similar letter to Representative Bill Archer.

Sincerely,

Leslie Samuels

Leslie B. Samuels
Assistant Secretary
(Tax Policy)

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

JUN 3 0 1994

The Honorable Daniel Patrick Moynihan
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Section 8003 of Public Law 101-240, the Intermodal Surface Transportation Efficiency Act of 1991, provides that the Secretary of the Treasury shall, within a reasonable period after the close of each of fiscal years 1992 through 1996, submit a report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate specifying his estimate of the amount of nonhighway recreational fuel taxes received in the Treasury during such fiscal year.

Pursuant to that section, I hereby submit "Nonhighway Recreational Fuel Taxes" for fiscal years 1992 and 1993.

I hope you will find this report informative. I am sending a similar letter to Senator Bob Packwood.

Sincerely,

Leslie Samuels

Leslie B. Samuels
Assistant Secretary
(Tax Policy)

TABLE OF CONTENTS

REPORT TO CONGRESS ON NONHIGHWAY RECREATIONAL FUEL TAXES

I. INTRODUCTION

This report on nonhighway recreational fuel taxes has been prepared by the Office of Tax Analysis (OTA) pursuant to a Congressional mandate in the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 (P.L. 101-240). Section 8003 of the ISTEA, which became effective December 18, 1991, established the National Recreational Trails Trust Fund, which was to be funded in part by revenues received by the Highway Trust Fund from nonhighway recreational fuel taxes.

Section 8003(d) of the ISTEA requires the Secretary of the Treasury to submit, following each fiscal year from 1992 through 1996, a report to the Congressional tax-writing committees specifying Treasury's estimate of the amount of nonhighway recreational fuel taxes received in the Treasury each fiscal year.

II. SUMMARY OF FINDINGS

Nonhighway recreational fuel taxes are defined in the ISTEA as taxes imposed under Internal Revenue Code (IRC) sections 4041, 4081, and 4091 (to the extent attributable to the Highway Trust Fund financing rate) with respect to fuel used in vehicles on recreational trails or back country terrain, and fuel used in camp stoves and other non-engine uses in outdoor recreational equipment. Treasury estimates that these taxes amounted to approximately $63 million and $64 million in fiscal years 1992 and 1993, respectively, or 0.38 percent and 0.36 percent respectively of total Highway Trust Fund revenues.

III. BACKGROUND

A. Motor Fuel Excise Taxes

Federal excise taxes are imposed under IRC sections 4041, 4081, and 4091 on special motor fuels, gasoline and diesel fuel, respectively, used for highway transportation and certain other activities. In fiscal years 1992 and 1993, the federal excise tax on gasoline and special motor fuels was 14.1 cents per gallon. The federal excise tax on highway diesel fuel was 20.1

cents per gallon. These rates became effective December 1, 1990, following passage of the Omnibus Budget Reconciliation Act of 1990.[1]

Partial exemption from the general motor fuels excise taxes is available for various alcohol-blended fuels, the most common being gasohol. Motor fuels used in farming; in other non-highway business; by state and local governments; and by tax-exempt educational organizations are exempt from taxation.

In fiscal years 1992 and 1993, the Highway Trust Fund received 11.5 cents for each taxable gallon of gasoline or special motor fuel, and 17.5 cents for each taxable gallon of highway diesel fuel. These rates are known as the Highway Trust Fund (HTF) financing rates. The Leaking Underground Storage Tank (LUST) trust fund received 0.1 cents per gallon of taxable motor fuel.[2] An additional 2.5 cents per taxable gallon of gasoline, special motor fuel and diesel fuel was retained in the General Fund for deficit reduction (the deficit reduction rate).

The ISTEA extended the HTF taxes, as well as the motorboat and small engine trust fund taxes, through September 30, 1999, while the LUST trust fund tax is scheduled to expire after December 31, 1995.[3]

B. National Recreational Trails Trust Fund

Section 8003(a) of the ISTEA added section 9511 to the IRC, establishing the National Recreational Trails Trust Fund (NRTTF). Amounts credited to the NRTTF are available, as provided in appropriations acts, to carry out the purposes of ISTEA sections 1302 and 1303, which together are often cited as the "Symms National Recreational Trails Act of 1991." In general, section 1302 authorizes a program allocating funds to the States for providing and maintaining recreational trails,[4] and section 1303 establishes a national recreational trails advisory committee.

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[1]The Omnibus Budget Reconciliation Act of 1993 (OBRA 93) increased the federal excise tax on motor fuels by 4.3 cents per taxable gallon, effective October 1, 1993.

[2]The LUST trust fund tax does not apply to liquefied petroleum gas.

[3]However, authority for transfers from the Highway Trust Fund to the Aquatic Resources Trust Fund extends only through September 30, 1997.

[4]ISTEA Section 1302(g)(5) defines a recreational trail as ..a thoroughfare or track across land or snow, used for recreational purposes such as bicycling, cross-country skiing, day hiking, equestrian activities, jogging or similar fitness activities, trail biking, overnight and long-distance backpacking, snowmobiling, aquatic or water activity and vehicular travel by motorcycle, four-wheel drive or all-terrain off-road vehicles...."

Among the revenue sources to be credited to the NRTTF pursuant to section 9511 are amounts described in IRC section 9503(c)(6). That section requires the Secretary of the Treasury to pay "from time to time from the Highway Trust Fund into the National Recreational Trails Trust Fund" amounts equal to the lesser of: (1) 0.3 percent of total HTF receipts for the period for which payment is made or (2) the amount obligated under ISTEA section 1302 for expenditure from the NRTTF, during the fiscal year. The percentage that nonhighway recreational fuel taxes bear to HTF receipts was to be adjusted by Treasury within one year of ISTEA's enactment, and may be adjusted by Treasury in future years, subject to certain restrictions.[3]

IV. NONHIGHWAY RECREATIONAL FUEL TAXES

Nonhighway recreational fuel taxes are taxes imposed under IRC sections 4041, 4081, and 4091 (to the extent attributable to the Highway Trust Fund financing rate) with respect to fuel used in vehicles on recreational trails or back country terrain, and fuel used in camp stoves and other non-engine uses in outdoor recreational equipment. Prior to enactment of ISTEA, no provision existed to transfer these taxes from the Highway Trust Fund, so they were available to finance authorized highway and mass transit projects. Under ISTEA, these taxes are available to finance authorized recreational trails programs.

A. Methodology

Comprehensive data on nationwide use of motor fuels on recreational trails or back country terrain are not readily available from any single source. The Department of Transportation's Federal Highway Administration (FHWA) annually publishes estimates of nonhighway gasoline use by type of use. For 1992, FHWA estimated that 3.9 billion gallons were used off-highway, of which 3.4 billion gallons were consumed by private (non-government) entities. This represents 3 percent of total FHWA-reported gasoline consumption for that year.[4] However, recreation is not one of the specified nonhighway uses.

In developing its estimate of nonhighway recreational fuel taxes, OTA contacted a variety of organizations knowledgeable about recreational fuel use, including the FHWA, state agencies, trade associations representing vehicle and equipment manufacturers, trail user groups, trade publications, and others. The consensus that emerged from these discussions was that nearly all of the federally-taxed fuel consumed in recreational uses was gasoline (rather than special motor fuels and diesel fuel), and that the major uses of such fuels are in motorcycles, all-terrain

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[3]The adjustment required within one year of ISTEA's enactment was not relevant for determining the amount to be transferred to the NRTTF, since Congress made no appropriations from the trust fund for either fiscal year 1992 or fiscal year 1993.

[4]Highway Statistics 1992, U.S. Dept. of Transportation, Federal Highway Administration, table MF-21A.

vehicles, snowmobiles, and four-wheel drive vehicles. A very small amount of gasoline is also used in camp stoves and other outdoor camping equipment.[5]

OTA's estimate of nonhighway recreational fuel taxes was obtained by taking the product of 1) an estimated number of gallons of gasoline used off-highway nationwide for defined recreational purposes and 2) the fiscal year 1992 and 1993 HTF financing rate of 11.5 cents per gallon. The estimate of total annual gallons consumed was obtained by summing estimated annual gallons consumed by each type of vehicle used off-highway for recreational purposes, and then adding a small estimated amount for camping uses. For each vehicle type, the estimated annual gallons consumed were derived as the product of three variables: (1) the vehicle population, (2) the estimated percent of vehicle population used off-highway for recreational purposes, and (3) the estimated average annual gallons consumed per vehicle in recreational uses.

B. Estimate

For fiscal year 1992, OTA estimates that $63 million in nonhighway recreational fuel taxes were received in the Treasury, based on estimated taxable gasoline consumption for such use of 548 million gallons. For fiscal year 1993, nonhighway recreational fuel taxes are estimated to be $64 million, based on taxable consumption for such use of 560 million gallons. This consumption represents about 0.5 percent of total taxable gasoline consumption. Motorcycles and all-terrain vehicles combined account for the largest share of estimated annual nonhighway recreational fuel use, followed by light trucks, and then snowmobiles. Camping equipment accounts for a very small amount and share of the total. For fiscal years 1992 and 1993, total HTF revenues, net of refunds, were $16,733 million and $18,039 million respectively. Thus, estimated nonhighway recreational fuel taxes represented 0.38 percent and 0.36 percent, respectively, of total HTF revenues. Table I summarizes these findings.

In estimating the relevant vehicle populations, OTA relied primarily on state vehicle registration information, supplemented by information on the number of vehicles not registered in any state but used off-highway for recreational purposes. While no definitive information could be found concerning either the frequency of nonhighway recreational use or the average annual gasoline use per vehicle on a nationwide basis, values were assumed for these parameters based on discussions with industry representatives and state officials and review of trade publications. OTA also consulted with the FHWA.

[5]See the Appendix for a listing of published data sources and organizations contacted for this report.

Table 1

Nonhighway Recreational Fuel Taxes

	FY 1992	FY 1993
Nonhighway Recreational Fuels:		
Gallons Consumed	548 million	560 million
HTF Financing Rate	$0.115 per gallon	$0.115 per gallon
Tax Receipts	$63 million	$64 million
Highway Trust Fund Net Receipts	$16,733 million	$18,039 million
Nonhighway Recreational Fuel Taxes as Percent of HTF Receipts	0.38 percent	0.36 percent

The Department of the Treasury
Office of Tax Analysis

V. STATUS OF THE NATIONAL RECREATIONAL TRAILS TRUST FUND

As mentioned above, IRC Section 9503(c)(6) limits the amount of nonhighway recreational fuel taxes that may be paid into the NRTTF during any fiscal year to the amount that has been obligated to be spent from the fund that year.[6] However, since no appropriations have ever been made from the NRTTF, no obligations have been incurred, and, as a result, no transfer of funds has ever been made. At this time, the trust fund has a zero balance. If funds are appropriated from the NRTTF and obligations against the fund are incurred, Treasury will transfer amounts as needed to cover anticipated outlays and provide an adequate working balance.

VI. SUMMARY AND CONCLUSION

The Intermodal Surface Transportation Act of 1991 established the National Recreational Trails Trust Fund (NRTTF) and directed Treasury to report to Congress annually its estimate of nonhighway recreational fuel taxes. Such taxes are those fuel taxes received in the Treasury

[6] In addition, the amount obligated during any fiscal year through 1997 may not exceed $30 million. See ISTEA Section 1302(d)(3) for limitations on obligations.

(to the extent attributable to the Highway Trust Fund financing rate) resulting from use of vehicles on recreational trails and back country terrain, and certain camping activities. Treasury has found that these taxes amounted to $63 million and $64 million in fiscal years 1992 and 1993 respectively, or 0.38 percent and 0.36 percent respectively of total Highway Trust Fund revenues.

The NRTTF currently has a zero balance, and no monies have ever been credited to the fund. Transfers of taxes from the Highway Trust Fund to the NRTTF for any year cannot exceed the amount obligated to be spent from the trails fund. Since no funds have ever been appropriated from the NRTTF, no obligations against the fund have been incurred, and no monies have been transferred to the fund. If funds are appropriated from the NRTTF and obligations against the fund are incurred, Treasury will transfer amounts from time to time during the year sufficient to cover anticipated outlays and provide an adequate working balance.

APPENDIX

SOURCES OF DATA AND OTHER ORGANIZATIONS CONTACTED REGARDING NONHIGHWAY RECREATIONAL FUELS

Published Data Sources

Motorcycle Statistical Annual, Motorcycle Industry Council, Inc., Irvine, CA, various issues.

MVMA - Motor Vehicle Facts & Figures, American Automobile Manufacturers Association, Inc., Detroit MI, various issues.

Highway Statistics, U.S. Department of Transportation, Federal Highway Administration, Washington, DC, various issues.

1987 Census of Transportation: Truck Inventory and Use Survey, United States. U.S. Department of Commerce, Washington, DC, August 1990.

1985-87 Public Area Recreation Visitor Survey, U.S. Department of Agriculture, Forest Service, Athens, GA, July 1988.

Other Organizations Contacted

State Agencies

California Department of Parks and Recreation, Off-Highway Motor Vehicle Recreation Division, Sacramento, CA.

Michigan Department of Natural Resources, Forest Management Division, Lansing, MI.

User Groups

TREAD LIGHTLY! On Public and Private Land, Ogden UT.
Coalition for Recreational Trails, Washington, DC
American Recreation Coalition, Washington, DC
Colorado Off-Highway Vehicle Coalition, Littleton, CO.
United 4 Wheel Drive Association, Felton, PA.

Trade Publications

Off Road, Argus Publishing Co., Los Angeles, CA.
Four Wheeler, Canoga Park, CA.
4-Wheeler & Off-Road, Petersen Publishing Co., Los Angeles, CA.

Industry Representatives

International Snowmobile Industry Association, Fairfax, VA.
Recreation Vehicle Industry Association, Reston, VA.
Coleman Corporation, Wichita, KS.
Specialty Equipment Market Association, Diamond Bar, CA.
Association of International Automobile Manufacturers, Arlington, VA.
Chrysler Corporation.
Ford Motor Company.
General Motors Corporation.

ACKNOWLEDGEMENTS

This study was prepared by Robert Yuskavage and Mark Rider of the Office of Tax Analysis under the direction of Joel Platt.

Department of the Treasury
Washington, D.C. 20220

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 5, 1994

FINAL REGULATIONS UNDER SECTION 482

I. OVERVIEW

These regulations are an important part of the Administration's International Enforcement Initiative that was announced last year. These regulations replace temporary and proposed regulations that the Service issued on January 21, 1993 (the 1993 regulations).

Section 482 is directed at the problem of determining appropriate transfer prices for cross-border transactions between related parties. Section 482 authorizes the Secretary to allocate income, deductions and other tax attributes among related taxpayers to prevent evasion of taxes or clearly to reflect income. The Tax Reform Act of 1986 (the "1986 Act") amended section 482 by providing that income from the transfer of intangible property must be commensurate with the income attributable to the intangible. The 1986 Act was estimated to raise $410 million over five years.

All versions of the section 482 regulations have adopted the so-called "arm's length" standard as their governing principle. The arm's length standard has been adopted by all the major trading partners of the United States. Under the arm's length standard, the appropriate amount of consideration in a controlled transaction is the amount that would have been charged or paid had the parties to the transaction been unrelated, i.e., dealing at arm's length. Application of the arm's length standard generally requires information regarding comparable transactions between unrelated parties. The regulations under section 482 describe different methods that can be applied to such information to determine an arm's length price.

I. PROVISIONS OF THE FINAL REGULATIONS

While the final regulations reflect numerous modifications in esponse to the comments received on the 1993 regulations, both the ormat and the substance of the final regulations are for the most art consistent with the 1993 regulations. The changes adopted are ntended to clarify and refine those provisions of the 1993 egulations that required improvement, without fundamentally ltering the basic policies reflected in the 1993 regulations.

The most noteworthy features of the 1993 regulations in omparison to earlier versions of the regulations under section 482 re the emphasis on comparability (i.e., the degree of similarity tween the controlled and uncontrolled transaction) and the exibility resulting from this emphasis. The final regulations adhere to this emphasis, and in some cases increase it.

By removing these restrictions, the final regulations are intended to maximize the extent to which relevant information may be taken into account in evaluating taxpayers' results under the arm's length standard. As a consequence, however, the emphasis on comparability is increased. The "best method rule" under the regulations provides that the method chosen in any case must be the method that provides the most reliable measure of an arm's length result under the facts and circumstances. Thus, taxpayers and the IRS will be required to exercise considerable judgment in applying the arm's length standard. To assist taxpayers and the IRS in exercising this judgment, the discussion of the factors to consider in applying the best method rule has been substantially expanded.

A. Interaction with Section 6662(e)

The section 482 regulations are inseparable from the section 6662(e) regulations. The regulations under section 6662(e), which were issued in February, 1994, implement an amendment to section 6662(e) that was enacted as part of the Omnibus Budget Reconciliation Act of 1993. Section 6662(e) imposes penalties of 20 or 40 percent in the case of underpayments of tax that are attributable to large transfer pricing adjustments.

The penalty will not be imposed, however, if the taxpayer attempted to set its prices in accordance with section 482, and prepared contemporaneous documentation demonstrating that it reasonably concluded that its prices were arm's length. Thus, while these regulations afford considerable leeway for the exercise of judgment by the IRS and the taxpayer, taxpayers may feel pressure to exercise that judgment appropriately, given the substantial penalties that could be imposed if they did not apply the regulations in a reasonable manner.

B. Comparable Profits Method

The 1993 regulations added a new method to the section 482 regulations known as the Comparable Profits Method (the CPM). The CPM indirectly evaluates whether transfer prices are arm's length by comparing the operating profits earned by the taxpayer to the profits earned by unrelated companies engaged in similar business activities. When the CPM was first proposed, many commenters asserted that because operating profit can be affected by factors other than transfer pricing, such a measure would not provide a reliable measure of an arm's length result, and therefore was not consistent with the arm's length standard.

Despite these concerns, the final regulations retain the CPM. To address commenters' concerns, the regulations' overall emphasis on comparability is intended to cause more direct evidence of arm's length prices to be preferred over the CPM when it is available.

C. Role of Profit Split Methods

The final regulations finalize profit split rules that were proposed in the 1993 regulations. The United States for many years has been reluctant to permit wide use of profit split methods because they do not refer solely to results of transactions between unrelated parties in determining an arm's length result. To the extent that they do not rely on such results they may be considered to be inconsistent with the arm's length standard. There are, however, cases in which it is impossible to locate adequate data to reliably apply one of the methods. In such a case a profit split may be the best available method.

The emphasis on comparability, however, is intended to prevent the use of profit splits except in cases in which the facts surrounding the taxpayer's transactions are so unusual that it is impossible to locate sufficient reliable data to apply another method in a reliable manner.

D. "Inexact" Comparables

Under the 1993 regulations the standards of comparability under all methods except the CPM required that a comparable be highly similar to the taxpayer's transactions. Many commenters pointed out that transactions with lesser degrees of comparability ("inexact" comparables) also could provide useful information in many cases. Therefore, the final regulations eliminate the arbitrary restrictions on the use of inexact comparables and instead rely on the best method rule to permit their use when they provide the most reliable measure of an arm's length result, and to prevent their use when they do not.

E. Arm's Length Range

Like the 1993 regulations, the final regulations provide that an arm's length range may be derived from two or more comparable uncontrolled transactions. Under the 1993 regulations the range included all the results that met the specified standard of comparability under the method being applied.

Under the final regulations, the arm's length range will be established in one of two ways, depending on whether inexact comparables are used. First, the range will consist of all the comparables that are highly comparable to the controlled transaction.

Second, if inexact comparables are used, the reliability of the analysis must be enhanced by applying statistical techniques to the results. In this case the range consists of the interquartile range, i.e., the 25th to the 75th percentile of the results.

F. Ownership of Intangible Property

Prior regulations provided that for purposes of section 482 intangible property (patents, trademarks, etc.) generally would be treated as being owned by the taxpayer that bore the greatest share of the costs of development. This rule was criticized, principally because it disregarded legal ownership. Commenters asserted that disregarding legal ownership could be inconsistent with the arm's length standard. For instance, a controlled taxpayer that was treated as the owner of an intangible for section 482 purposes might not be the legal owner. At arm's length, the legal owner could transfer the rights to the intangible to another person irrespective of the developer's contribution to the development of the intangible. On the other hand, it would be unlikely that at arm's length an unrelated party would incur substantial costs adding value to an intangible that was owned by an unrelated party, unless there was some assurance that the party that incurred the expenses would receive the opportunity to reap some benefit from having incurred the expenses.

The final regulations adopt a different approach to the identification of the owner of an intangible that is more consistent with legal ownership. The legal owner of the right to exploit an intangible will be considered the owner for purposes of section 482.

Ownership of intangible property that is not legally protected will be determined in a manner similar to that under the 1993 regulations, i.e., the owner will be the person that bore the greatest share of the costs of development. Finally, if a controlled taxpayer is not the owner of an intangible but enhances the value of the intangible (for example, through extensive advertising that adds value to a trademark), that person must be compensated for effectively performing a service on behalf of the owner.

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
July 5, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $12,013 million of 13-week bills to be issued July 7, 1994 and to mature October 6, 1994 were accepted today (CUSIP: 912794N59).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.29%	4.40%	98.916
High	4.31%	4.42%	98.911
Average	4.31%	4.42%	98.911

$180,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 62%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$48,003,413	$12,012,973
Type		
Competitive	$42,173,830	$6,183,390
Noncompetitive	1,414,490	1,414,490
Subtotal, Public	$43,588,320	$7,597,880
Federal Reserve	3,320,430	3,320,430
Foreign Official Institutions	1,094,663	1,094,663
TOTALS	$48,003,413	$12,012,973

An additional $264,537 thousand of bills will be issued to foreign official institutions for new cash.

LB-926

AUCTION RESULTS

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
July 5, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $12,053 million of 26-week bills to be issued July 7, 1994 and to mature January 5, 1995 were accepted today (CUSIP: 912794P73).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.71%	4.89%	97.619
High	4.74%	4.92%	97.604
Average	4.74%	4.92%	97.604

$4,000,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 54%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$43,685,950	$12,053,473
Type		
Competitive	$38,393,397	$6,760,920
Noncompetitive	1,245,316	1,245,316
Subtotal, Public	$39,638,713	$8,006,236
Federal Reserve	3,100,000	3,100,000
Foreign Official Institutions	947,237	947,237
TOTALS	$43,685,950	$12,053,473

An additional $228,763 thousand of bills will be issued to foreign official institutions for new cash.

LB-927

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR RELEASE AT 2:30 P.M.
July 5, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $24,000 million, to be issued July 14, 1994. This offering will result in a paydown for the Treasury of about $1,300 million, as the maturing weekly bills are outstanding in the amount of $25,306 million.

Federal Reserve Banks hold $6,406 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $2,317 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

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

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

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Attachment

LB-928

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS TO BE ISSUED JULY 14, 1994

July 5, 1994

Offering Amount	$12,000 million	$12,000 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 N6 7	912794 P8 1
Auction date	July 11, 1994	July 11, 1994
Issue date	July 14, 1994	July 14, 1994
Maturity date	October 13, 1994	January 12, 1995
Original issue date	April 14, 1994	January 13, 1994
Currently outstanding	$12,612 million	$16,037 million
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

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

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

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

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

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

PUBLIC DEBT NEWS

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

FOR RELEASE AT 3:00 PM
July 7, 1994

Contact: Peter Hollenbach
(202) 219-3302

PUBLIC DEBT ANNOUNCES ACTIVITY FOR SECURITIES IN THE STRIPS PROGRAM FOR JUNE 1994

Treasury's Bureau of the Public Debt announced activity figures for the month of June 1994, of securities within the Separate Trading of Registered Interest and Principal of Securities program (STRIPS).

Dollar Amounts in Thousands

Principal Outstanding (Eligible Securities)	$778,598,919
Held in Unstripped Form	$558,720,744
Held in Stripped Form	$219,878,175
Reconstituted in June	$11,603,180

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

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

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(LB-929)

TABLE VI--HOLDINGS OF TREASURY SECURITIES IN STRIPPED FORM, JUNE 30, 1994
(In thousands)

Loan Description	Maturity Date	Principal Amount Outstanding			Reconstituted This Month#1
		Total	Portion Held in Unstripped Form	Portion Held in Stripped Form	
1-5/8% Note C-1994.....	.....11/15/94.....	$6,658,554	$4,672,954	$1,985,600	$20,800
1-1/4% Note A-1995.....	.....2/15/95......	6,933,861	5,618,181	1,315,680	-0-
1-1/4% Note B-1995.....	.....5/15/95......	7,127,086	4,521,646	2,605,440	168,480
0-1/2% Note C-1995.....	.....8/15/95......	7,955,901	5,219,501	2,736,400	68,000
-1/2% Note D-1995......	.....11/15/95.....	7,318,550	3,964,150	3,354,400	-0-
-7/8% Note A-1996......	.....2/15/96......	8,445,778	7,015,378	1,430,400	8,000
-3/8% Note C-1996......	.....5/15/96......	20,085,643	19,085,643	1,000,000	80,000
-1/4% Note D-1996......	.....11/15/96.....	20,258,810	17,934,810	2,324,000	30,400
-1/2% Note A-1997......	.....5/15/97......	9,921,237	8,744,037	1,177,200	35,600
-5/8% Note B-1997......	.....8/15/97......	9,362,836	7,914,836	1,448,000	-0-
-7/8% Note C-1997......	.....11/15/97.....	9,808,329	7,741,129	2,067,200	12,800
-1/8% Note A-1998......	.....2/15/98......	9,159,068	8,234,908	924,160	55,040
% Note B-1998..........	.....5/15/98......	9,165,387	6,803,187	2,362,200	-0-
-1/4% Note C-1998......	.....8/15/98......	11,342,646	9,246,646	2,096,000	135,200
-7/8% Note D-1998......	.....11/15/98.....	9,902,875	7,101,275	2,801,600	20,800
-7/8% Note A-1999......	.....2/15/99......	9,719,623	8,254,023	1,465,600	4,800
-1/8% Note B-1999......	.....5/15/99......	10,047,103	6,664,703	3,382,400	81,600
% Note C-1999..........	.....8/15/99......	10,163,644	8,127,469	2,036,175	21,200
-7/8% Note D-1999......	.....11/15/99.....	10,773,960	8,125,960	2,648,000	-0-
-1/2% Note A-2000......	.....2/15/00......	10,673,033	9,392,633	1,280,400	-0-
-7/8% Note B-2000......	.....5/15/00......	10,496,230	6,197,030	4,299,200	9,600
-3/4% Note C-2000......	.....8/15/00......	11,080,646	8,041,286	3,039,360	29,120
-1/2% Note D-2000......	.....11/15/00.....	11,519,682	9,005,282	2,514,400	35,200
-3/4% Note A-2001......	.....2/15/01......	11,312,802	9,383,202	1,929,600	158,400
% Note B-2001..........	.....5/15/01......	12,398,083	10,041,433	2,356,650	-0-
-7/8% Note C-2001......	.....8/15/01......	12,339,185	10,425,585	1,913,600	22,400
-1/2% Note D-2001......	.....11/15/01.....	24,226,102	22,846,262	1,379,840	-0-
-1/2% Note A-2002......	.....5/15/02......	11,714,397	10,895,597	818,800	30,000
-3/8% Note B-2002......	.....8/15/02......	23,859,015	23,446,215	412,800	-0-
-1/4% Note A-2003......	.....2/15/03......	23,562,691	23,534,339	28,352	-0-
-3/4% Note B-2003......	.....8/15/03......	28,011,028	27,867,828	143,200	-0-
-7/8% Note A-2004......	.....2/15/04......	12,955,077	12,955,077	-0-	-0-
-1/4% Note B-2004......	.....5/15/04......	14,440,372	14,440,372	-0-	-0-
1-5/8% Bond 2004.......	.....11/15/04.....	8,301,806	5,610,606	2,691,200	91,200
2% Bond 2005...........	.....5/15/05......	4,260,758	3,078,258	1,182,500	54,000
0-3/4% Bond 2005.......	.....8/15/05......	9,269,713	8,408,113	861,600	60,000
-3/8% Bond 2006........	.....2/15/06......	4,755,916	4,755,276	640	-0-
1-3/4% Bond 2009-14....	.....11/15/14.....	6,005,584	2,059,184	3,946,400	468,800
1-1/4% Bond 2015.......	.....2/15/15......	12,667,799	5,325,719	7,342,080	1,251,680
0-5/8% Bond 2015.......	.....8/15/15......	7,149,916	2,161,116	4,988,800	33,600
-7/8% Bond 2015........	.....11/15/15.....	6,899,859	2,392,659	4,507,200	153,600
-1/4% Bond 2016........	.....2/15/16......	7,266,854	6,341,254	925,600	270,400
-1/4% Bond 2016........	.....5/15/16......	18,823,551	18,401,951	421,600	-0-
-1/2% Bond 2016........	.....11/15/16.....	18,864,448	17,953,648	910,800	-0-

łond 2017........	.....5/15/17......	18,194,169	5,637,049	12,557,120	861,440
łond 2017........	.....8/15/17......	14,016,858	5,972,058	8,044,800	292,800
ïond 2018........	.....5/15/18......	8,708,639	2,001,439	6,707,200	113,600
2018............	.....11/15/18.....	9,032,870	1,325,070	7,707,800	135,200
ond 2019........	.....2/15/19......	19,250,798	4,597,998	14,652,800	1,294,400
ond 2019........	.....8/15/19......	20,213,832	17,709,192	2,504,640	797,120
ond 2020........	.....2/15/20......	10,228,868	4,314,068	5,914,800	754,800
ond 2020........	.....5/15/20......	10,158,883	3,444,803	6,714,080	1,351,680
ond 2020........	.....8/15/20......	21,418,606	4,093,166	17,325,440	631,360
ond 2021........	.....2/15/21......	11,113,373	9,474,973	1,638,400	190,400
ond 2021........	.....5/15/21......	11,958,888	4,717,288	7,241,600	465,920
ɔnd 2021........	.....8/15/21......	12,163,482	5,179,482	6,984,000	440,640
2021............	.....11/15/21.....	32,798,394	7,673,544	25,124,850	470,300
ɔnd 2022........	.....8/15/22......	10,352,790	8,660,790	1,692,000	143,200
ɔnd 2022........	.....11/15/22.....	10,699,626	4,272,426	6,427,200	201,600
ɪnd 2023........	.....2/15/23......	18,374,361	16,844,761	1,529,600	48,000
ɪnd 2023........	.....8/15/23......	22,909,044	22,852,276	56,768	-0-
....	....	778,598,919	558,720,744	219,878,175	11,603,180

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

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

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
July 7, 1994

Contact: Sheila Nelson
(202) 219-3302

JUNE SAVINGS BONDS SALES REACH $660 MILLION

Savings Bonds sales in June reached $660 million, pushing the value of U.S. Savings Bonds held by Americans to $177.1 billion, up 6 percent over a year ago.

Savings Bonds issued on or after March 1, 1993, and held five years or longer, earn the market-based interest rate if it averages more than the guaranteed minimum of 4 percent. Bonds issued before March 1993 retain their existing guaranteed minimum rates until they enter a new extended maturity period. If redeemed during the first five years, bonds earn 4 percent. The current semiannual market-based rate effective May 1, 1994, through October 31, 1994, is 4.70 percent.

Interest earnings on Savings Bonds are exempt from State and local income taxes, and Federal income taxes on the interest earnings can be deferred.

Current rate information can be obtained by calling the Savings Bonds Marketing Office's toll-free number, 1-800-4US-BOND.

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LB-930)

STATISTICAL SUMMARY
Series EE and HH U. S. Savings Bonds
Month of June 1994

ISSUES, REDEMPTIONS AND OUTSTANDING	June 1994	June 1993
	(In millions of dollars)	
Sales: Series EE	$ 660	$ 798
Accrued Discount (Interest earned and added to Amount Outstanding) Series E & EE	733	772
Redemptions (Including Accrued Discount) All Series	831	715
Cash Adjustments from Series HH Savings Bonds Exchanges	2	3
Amount Outstanding Net Increase June	564	858
Total Outstanding	1994	1993
Series E & EE	$165,796	$155,520
Series H & HH	11,334	11,011
Total All Series	$177,130	$166,531

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

FOR IMMEDIATE RELEASE
July 7, 1994

Contact: Scott Dykema
(202) 622-2960

U.S., SOUTH AFRICA TO HOLD INCOME TAX TREATY TALKS

Negotiation of an income tax treaty with South Africa will begin this fall, the Treasury Department said.

Officials will meet Oct. 24 in South Africa. There is no tax treaty between the countries and a prior treaty was terminated as of July 1, 1987. U.S. and South African officials had informal discussions earlier this year to prepare for the negotiations.

The new treaty is expected to deal with taxation of income from business activities, investments, and personal services derived by residents of one country from the other. The accord will include provisions to avoid taxation of income by more than one nation, to ensure that governments don't discriminate between domestic and foreign taxpayers, and to prevent abuse of the treaty. Finally, the new treaty will include exchange of tax information and other administrative cooperation measures between tax authorities in both countries.

Several "model" tax treaties will be used as patterns in the negotiations. These include a new U.S. model income tax treaty that should be public by the time the talks begin, a South African model treaty, and model treaties published by the United Nations and the Organization for Economic Cooperation and Development. In addition, tax treaties between South Africa and its other major trading partners also will be factored in.

The Treasury Department is seeking public comments regarding the upcoming negotiations. Anyone wishing to comment on the proposed treaty should send their written comments to the International Tax Counsel, U.S. Treasury Department, 1500 Pennsylvania Ave., N.W., Room 3064, Washington, D.C. 20220. Comments also can be submitted by fax to (202) 622-1051.

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LB-931

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

EXCERPTS OF THE TRANSCRIPT OF

TREASURY SECRETARY LLOYD BENTSEN

PRESS CONFERENCE

ON G-7 SUMMIT IN NAPLES, ITALY

FRIDAY, JULY 08, 1994

LB-932

Lloyd Bentsen Press Conference
Excerpts
July 8, 1994

Question: Can you tell us what coordinated action you talked to the Japanese about regarding the dollar?

Bentsen: I talked to them about cutting their income tax, which they stated they would continue to cut. I then stated we very much encourage you to cut to a point where you are assured your economy had recovered and was on its way to growth. And the Finance Minister assured me he would. I certainly thought that was encouraging.

Question: Do you think further action needs to be taken to deal with volatility?

Bentsen: I think the fundamentals will ultimately prevail. We were urging the Japanese to do their tax cut and keep it in effect until they were sure their economy had recovered. I can remember last year they had a first quarter that was encouraging and they thought it would carry that through but it did not.

Question: Any talk with the Japanese about their lowering their interest rates further?

Bentsen: No we didn't discuss that.

Question: Did the Japanese Prime Minister have specific policies on the exchange rates?

Bentsen: No. We share his concern. We did not get specific beyond that. And neither one of us talked about an intervention.

Question: Have you thrown in the towel on intervention.

Bentsen: The one thing I don't comment on is our planned actions in the future.

Question: When you talk that fundamentals will ultimately prevail, how much strengthening is necessary?

Bentsen: I'm not going to say when it reaches a specific number that's it.

Question: Any discussion of further Japanese stimulus?

Bentsen: No there was not. I've said all along that we'd be pleased if they further cut their discount rate. It's pretty obvious that will be their decision to make.

Question: Government reported strong employment figures. See anything in there that might require the Federal Reserve to take some actions

Bentsen: At this point I don't. Unemployment stayed the same -- 6 percent -- just what the last one was. It's an indication our investment in people is paying off and that growth is still well under way.

Question: No need for any action?

Bentsen: Not at this point.

Question: What did you think of the new finance minister?

Bentsen: I thought he was a man careful in thought, being quite prudent in his answers, which is very understandable for a person who has just taken over a new job with a major responsibility. To think that this new government after one week in office will have a detailed set of plans is not reality. You have to give them some time.

I had a good meeting with the Finance Minister. An excellent exchange.

Question: Any comment on the framework talks?

Bentsen: The progress has been disappointing to this point. We've made some very minor progress in financial instruments, but it's quite minor at this point. On the main targets -- government procurement and automobiles we've made very little progress.

Question: How much appreciation do you think is necessary?

Bentsen: I can't answer it. If I did answer it, then if I were you I'd go call my agent or broker.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

"The Philippines in the New International Economic Order"
Remarks by Jeffrey R. Shafer
Assistant Secretary for International Affairs
Before the American Chamber of Commerce
in The Philippines
July 8, 1994

I am delighted to be here in the Philippines and to have the opportunity to speak before the American Chambers of Commerce. This is my third trip to the Philippines since I came to Treasury. These visits, Secretary Bentsen's trip to Asia last January, and those of Under Secretary Summers are good indications of the Treasury's growing appreciation for the region's importance in the global economy.

We at Treasury believe in President Clinton's vision of an America that can compete around the globe. You in the AmCham are doing just that. today I would like to discuss this region's rapidly expanding role in the global economy. I will begin with some general observations about emerging markets and the Clinton Administration's policy towards them before addressing the Philippines directly.

I also want to focus on financial sector reform, not just because I am here in Asia to discuss financial services, but because I firmly believe that financial services liberalization is key to sustaining rapid, private-sector led growth in the countries of the region.

To begin, let me make three observations on the situation facing emerging-market countries today: first, we have a growing consensus on what policies produce sustained growth and development -- a consensus based on experience; second that these policies are working in countries with varied resources, cultures and of various sizes; and third, that under the right circumstances, growth and development can be very rapid.

LB-933

The Developing Country Role in the New Order

Clearly there is on one blueprint for development. Yet, increasingly, policymakers and policy analysts alike, in a wide variety of countries, cite the same core policy characteristics as necessary for success:

- a sustained commitment to macroeconomic stability, including restraints on public sector borrowing;

- the promotion of high private savings and investment rates;

- an emphasis on developing the full productive potential of a nation by providing adequate education to all members of society;

- steady progress in market-oriented reform, which means two things: It means getting rid of heavy-handed state intervention in markets, and it means providing for the fair and efficient administration of the laws and regulations that are the rules of the game of a market economy;

- finally, a reliance on private financial markets, including international markets, to mobilize savings and direct it towards productive investment.

This emerging consensus means that we can move beyond ideology in development economics to an emphasis on what works. And it turns out that policies which work can rapidly transform an economy in a wide variety of settings.

For example, the best performing countries of East Asia have demonstrated the potential for telescoping the development process: their growth rates in the post-war period have no equal in economic history. Per capita income in much of East Asia has been doubling every 13 years. In the last 30 years, Korea grew as much as the United States did in all of the last century. Hong Kong, Taiwan, and Singapore have gone from extreme poverty to OECD income levels in a very short time. In Malaysia and Indonesia, the total number of poor has been cut by more than half in the last 20 years. This record shows that, within one generation, that there can be qualitative improvements in living standards that benefit all segments of the population.

My last observation, on the diversity of success stories, is especially important because it means that high growth and rapid development are spreading to countries of greatly different sizes, resource endowments and cultural heritages. Such spreading of strong performance was not always confidently predicted. For many years, economists and others focused on Japan as a unique post war-war development success story. Then the accomplishments of the four "Asian Tigers" were recognized. Again, many viewed their experiences as unique, perhaps generated by cultural factors.

Yet, recent performance in other areas of South Asia and East Asia has demonstrated that rapid growth and development can be replicated in any setting. And, there are positive spillovers: success in one country improves prospects in other countries within the region. This is good news for all developing economies in East Asia, including the Philippines.

Before turning to the Philippines, however, I would like to give you a brief overview of the Clinton Administration's strategy for this region and the world. I will begin with the bottom line: This Administration has a vested interest in the sustained growth and development of this region, and is supporting bilateral and multilateral initiatives that promote this objective.

Clinton Administration Economic Strategy for the Asia-Pacific Region

The aim of U.S. international economic policy is to encourage continued rapid development and its spread to an ever increasing number of countries. in our view, economic strength abroad benefits the United States. it does not threaten us as long as our economic partners share a commitment to an open, integrated, market-oriented global system.

As I said, we want to compete in global markets. This means our prosperity depends on growth of markets around the world. Shared prosperity promotes expanding markets for American producers and more jobs for American workers. But shared prosperity also promotes a shared stake in the international economic system and in the peaceful resolution of conflicts. Prosperous societies are fertile ground for democracy too -- a system of government in which internal differences must be accommodated rather than suppressed. The tolerance required for democracies to function predisposes them to seek accommodation rather than to engage in conflict with each other.

We are advocates for the multilateral system and multilateral institutions because we believe they promote shared prosperity. President Clinton and Ambassador Kantor, and many others of us in the Administration, rolled up our sleeves and worked hard to complete the Uruguay Round. We are absolutely determined to pass it this year and we are confident of success.

The multilateral development banks are also a top priority for us. The United States strongly supported the doubling of the Asian Development Bank's capital from $24 billion to $48 billion, which was approved last month by the ADB governors. The capital increase agreement outlines the policy directions that will guide Bank operations. They emphasize the importance of social sector lending, family planning and the environment. Yet, they continue support for infrastructure investment, policy-based landing, and private sector development. We welcome both the capital increase and the Bank's vision for the future. I am going to personally deliver this message to President Sato at the Bank this afternoon.

We also realize that there is no region more important to U.S. and global economic prospects than the Asia Pacific. Even without the United States, the Asia-Pacific region including Canada, Mexico, and Chile accounts for nearly 30 percent of world output. With the United States, its is one-half of the world economy. About 80 percent of our exports already go the Asia-Pacific. We know this share will rise, driven by sustained high growth rates for the foreseeable future. To help ensure this growth, we also support APEC as a regional framework for economic cooperation, trade liberalization and freer international investment. We have worked hard to promote APEC's role because we are confident it can benefit all parties in the region.

When President Clinton hosted the first APEC Leaders' meeting in Seattle in November, the message was clear and unmistakable -- the United States wants to build cooperative relations at the very highest levels, based on mutual respect for each economy's interest.

When Secretary Bentsen hosted the first APEC Finance Ministers meeting in Honolulu in March, the message was equally clear. The spirit of that meeting was one of shared interests and a desire to develop closer ties. Not surprisingly, when the Finance Ministers got together, one thing they shared was an interest in capital flows. In Honolulu there was a particular interest in the conditions for private capital flows to be a stable and sustained source of funds for investment. This emphasis reflects the fact that many APEC countries have conquered the major development challenge of macroeconomic stabilization; they have unleased the power of the private sector, they are developing human capital at a prodigious pace, and now they face the challenge of sustaining strong growth and rapid development. In my view, an emphasis on financial market development and integration with regional and global markets is called for to meet this challenge. The Philippines fits this mold, even if there is more unfinished business than in earlier movers to put firmly in place the basics of development.

<u>Philippine Prospects for Joining Other High-Performing Countries in the Region</u>

Just a few years ago, the question of how to sustain private capital inflows would have been considered a foolish one in the Philippines. The focus would have been exclusively on how to obtain official financial support or reduce external debt. Now things are changing. The Philippine economy has come a long way:

o The Philippines has placed a premium on macroeconomic stability, which has led to a decline in inflation and a return to growth.

o The Philippines has promoted savings and investment. Although savings lags behind others in the region, on a world wide comparison it is not doing badly.

o The government has privatized over 81 companies.

o The Philippines has reduced trade barriers and lifted investment restrictions.

o And I understand that President Ramos has just taken another significant step by opening several key services areas, including insurance and travel agencies, to 100 percent foreign ownership.

As in other parts of the world, the Philippine people and economy have quickly responded to this breath of fresh air. Growth rose to 2.3 percent in 1993 and 4.8 percent in the first quarter of this year. Staying on course with these policies should lead to still more rapid growth. Exports are up and the external balance has improved. Inflation has fallen to single digits and interest rates are down.

Private investors, both in and outside the Philippines, have also responded. Last year, the Philippine stock market rose 132 percent in dollar terms and market capitalization increased 250 percent. The Philippines have made a successful return to the international capital markets. And interest in direct investments here is on the upswing.

At the same time, one major area where I believe inefficiency and distortions have imposed large costs on the Philippine economy is in the financial sector. I would like to spend some time on financial reform because I believe development in this sector will help advance economic development in the whole country. The Philippines has taken an important step forward in enacting a bank reform law. The entry of up to 10 new foreign banks will bring new sources of innovation, greater competition and diversified funding to the Philippines' market. Since foreign banks will be able to operate as universal banks, the strength they will bring will be felt across the Philippines money and capital markets. This new law is an initial building block toward an essential goal: a competitive and efficient Philippine financial system.

I believe the time is ripe for the Philippines to move further towards this goal. Growth is being constrained by infrastructure bottlenecks, and official sources of capital, whether from domestic or international sources, cannot possibly meet the Philippines' financial needs. Nor will official channels direct resources as efficiently as competitive markets. Only a liberalized financial system, that is linked to global and regional markets, can provide the funding and the full range of financial services that are vital for investment, and growth, to be sustained.

<u>The Importance and Benefits of Financial Sector Liberalization</u>

To drive this point home, I would ask you to consider what can happen in a closed financial system. Protected, inefficient banking systems fail in a basic function critical to development progress: financial intermediation, that is channeling resources from savings to investment. They fail by raising the costs of intermediation through large spreads between deposit and lending rates. But they also fail by lowering overall savings and investment rates. The Philippines has seen this in the past. Economies with a cultural inclination toward high savings can perhaps get along for a while with poor intermediation systems. But the capital needed in this region to sustain high growth rates is progressively raising the costs and reducing the viability of this option.

Of course, we are now operating in a world where Asian borrowers, particularly large firms, are pursing other alternatives -- global bond and equity markets and domestic securities markets. These alternatives are essential to finance large, long-term projects given the limited maturity of most bank lending in the region.

But these alternatives only increase pressure on inefficient banking sectors which are having increasing difficulty attracting customers and deposits. It is clear that securities markets in the region must be progressively liberalized to provide alternative means of raising capital appropriate to maturing economies. it is also clear, however that securities market liberalization and development in order to prevent further damage to already weak banking sectors and to the middle range of private companies that can best be served by banks.

Generally, countries in the region are moving forward in the process of financial liberalization, convinced that it is in their interest. Nevertheless, we are hearing a number of arguments advocating a slow-down. The most prevalent is that a country should delay opening to foreign banks until competition has been increased domestically and the domestic system is fully developed and competitive.

My first response to that claim is that this approach simply will not work for financial firms any more than it works for other sectors. protection does not strengthen industries and it does not foster efficient development. It took more years of wasted opportunity and stagnation in a range of countries before governments realized that producers did not become competitive and efficient if they could lean on the crutch of government protection. I hope time and opportunity will not be wasted trying to develop the financial sector the same way. Vested interests will be nurtured, not the financial system, and it will become even harder to move later.

Protection of financial institutions is particular costly because of the effects of high capital costs in lowering competitiveness across the entire economy. Companies which can, will go offshore to raise money. This will further impede domestic financial market development. Capital controls may limit access to global markets, but they do not affect all businesses the same. Companies that do not have access to offshore capital are at a disadvantage compared to those that do. And those with advantage are not necessarily the more efficient or the more competitive. As a result, protectionism may be favoring the losers rather than the winners. The same can be said for the results of policies that provide preferential domestic credits for some firms or industries.

Now in saying that protection is not the way to build a strong domestic financial sector, I am not arguing that all controls should come off overnight. A big-bang approach can have short-term costs. And a gradual approach will provide comfort for doubters as the waters are tested. What is needed is a commitment to increasing openness at a good pace. This is one of the chief messages I am here in East Asia to deliver. And I am encouraged here by the step that is being taken in banking. Positive results from this should provide a basis for going further.

Conclusion

Let me conclude by stressing that I have not come here simply to recite the interests of the U.S. financial committee. Instead I have argued for the benefits of financial liberalization for the liberalizing economy. My overall point is this: after decades of debate over whether or not any "right path existed for development, there is growing agreement that at the very least, this path must include certain policies, like a sustained commitment to macroeconomic stability. The Philippines has embarked on this path, and we are already seeing results. Now, it is my hope that the Philippines can benefit from the ample evidence in the world that financial liberalization is critical for sustained success, and will continue to move along this path.

I would also like to conclude by remarking on something I have not addressed today: investing in the social sector. I began by noting a number of elements that are beginning to emerge as necessary components of a successful development strategy. The elements I expanded on, like macroeconomic stability and financial liberalization, reflect an emphasis on where the state does not belong. But for development to really succeed we need to make governments as effective force as a catalyst for growth and as protector when markets fail. That's why I included education as one of the critical elements of development, and that's why the United States supported a new emphasis on social sector lending in the Asian Development Bank's capital replenishment.

With the help of this institution and through our new multilateral channels like APEC, I am confident that we can we rise to the newest challenges of development here in the Philippines and elsewhere in the region. And I will look forward to having future opportunities to visit a region that has taught the world so much about growth and development.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
July 8, 1994

Contact: Rebecca Lowenthal
(202) 622-2960

TREASURY TO UNVEIL POSSIBLE FEATURES FOR NEW U.S. CURRENCY DESIGN

Representatives from the Treasury Department will describe features under consideration for a re-designed U.S. currency in testimony before the House Banking Committee next week.

Scheduled to testify are Treasury Undersecretary for Domestic Finance Frank Newman, U.S. Treasurer Mary Ellen Withrow, U.S. Secret Service Deputy Director Guy Caputo, and Bureau of Engraving and Printing Director Peter H. Daly.

The hearing will be at 10 a.m. on Wednesday, July 13 in Room 2128, Rayburn House Office Building.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR RELEASE AT 12:00 NOON
July 11, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION CASH MANAGEMENT BILL

The Treasury will auction approximately $6,000 million of 69-day Treasury cash management bills to be issued July 15, 1994.

Competitive tenders will be received at all Federal Reserve Banks and Branches. Noncompetitive tenders will not be accepted. Tenders will not be accepted for bills to be maintained on the book-entry records of the Department of the Treasury (TREASURY DIRECT). Tenders will not be received at the Bureau of the Public Debt, Washington, D. C.

Additional amounts of the bills may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights.

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Attachment

HIGHLIGHTS OF TREASURY OFFERING
OF 69-DAY CASH MANAGEMENT BILL

July 11, 1994

<u>Offering Amount</u>	$6,000 million
<u>Description of Offering</u>:	
Term and type of security .	69-day Cash Management Bill
CUSIP number	912794 L7 7
Auction date	July 13, 1994
Issue date	July 15, 1994
Maturity date	September 22, 1994
Original issue date	September 23, 1993
Currently outstanding . . .	$40,810 million
Minimum bid amount	$1,000,000
Multiples	$1,000,000
Minimum to hold amount . .	$10,000
Multiples to hold	$1,000
<u>Submission of Bids</u>:	
Noncompetitive bids	Not accepted
Competitive bids . . .	(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%. (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater. (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.
<u>Maximum Recognized Bid at a Single Yield</u> . . .	35% of public offering
<u>Maximum Award</u>	35% of public offering
<u>Receipt of Tenders</u>:	
Noncompetitive tenders . .	Not accepted
Competitive tenders	Prior to 1:00 p.m. Eastern Daylight Saving time on auction day
<u>Payment Terms</u>	Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
July 11, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $12,048 million of 13-week bills to be issued July 14, 1994 and to mature October 13, 1994 were accepted today (CUSIP: 912794N67).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.47%	4.58%	98.870
High	4.50%	4.61%	98.863
Average	4.50%	4.61%	98.863

$9,080,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 75%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$41,217,737	$12,048,109
Type		
Competitive	$35,514,980	$6,345,352
Noncompetitive	1,426,696	1,426,696
Subtotal, Public	$36,941,676	$7,772,048
Federal Reserve	3,205,620	3,205,620
Foreign Official Institutions	1,070,441	1,070,441
TOTALS	$41,217,737	$12,048,109

An additional $208,959 thousand of bills will be issued to foreign official institutions for new cash.

4.35 - 98.900, 4.44 - 98.878, 4.48 - 98.868, 4.49 - 98.865

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

FOR IMMEDIATE RELEASE
July 11, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $12,064 million of 26-week bills to be issued July 14, 1994 and to mature January 12, 1995 were accepted today (CUSIP: 912794P81).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.91%	5.10%	97.518
High	4.94%	5.14%	97.503
Average	4.94%	5.14%	97.503

$50,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 85%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$43,994,386	$12,063,726
Type		
Competitive	$38,423,471	$6,492,811
Noncompetitive	1,217,756	1,217,756
Subtotal, Public	$39,641,227	$7,710,567
Federal Reserve	3,200,000	3,200,000
Foreign Official Institutions	1,153,159	1,153,159
TOTALS	$43,994,386	$12,063,726

An additional $224,841 thousand of bills will be issued to foreign official institutions for new cash.

4.75 - 97.599 , 4.80 - 97.573, 4.92 - 97.513, 4.93 - 97.508

LB-937

PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
July 11, 1994

Contact: Peter Hollenbach
(202) 219-3302

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS IN ALABAMA AND GEORGIA AFFECTED BY FLOODS

The Bureau of Public Debt took action to assist victims of the flooding that struck both Alabama and Georgia by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Alabama and Georgia hit by floods. These procedures are effective immediately and will remain in effect through August 31, 1994.

Public Debt's action waives the normal six-month minimum holding period for Series EE savings bonds presented to authorized paying agents for redemption by residents of the affected area. Most financial institutions serve as paying agents for savings bonds.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or the Federal Reserve Bank. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bonds Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "Floods" on the front of their envelopes to help expedite the processing of claims.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
July 11, 1994

Contact: Hamilton Dix
(202) 622-2960

MUÑOZ ELECTED TO INTERAGENCY FINANCIAL COUNCIL POST

George Muñoz, Assistant Secretary of the Treasury for Management, has been elected to a top post in the federal government's financial officers association.

Muñoz, who is also Treasury's Chief Financial Officer, will serve a two year term as Executive Vice Chairman of the Council of Chief Financial Officers, its highest elected office. The Council is made up of Chief and Deputy Chief Financial Officers of federal agencies and is chaired by the Deputy Director for Management, Office of Management and Budget.

"It's an honor to have our Assistant Secretary Muñoz elected to this prestigious body. I'm certain the he will serve the Council in the same outstanding manner that he serves at Treasury," said Treasury Secretary Lloyd Bentsen.

Created by the Chief Financial Officers Act in 1990, the Council serves as a forum to help monitor progress, resolve problems, provide coordination and develop consensus on new directions in financial management. This is the first year the Council has elected officers.

Muñoz strongly supports the need for sound leadership and joint efforts on common problems across the federal government. "More accountability can only be met with better financial management. The Council is establishing financial management that can render a true picture of how well government programs are performing," said Muñoz.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
July 12, 1994

Contact: Hamilton Dix
(202) 622-2960

NOBLE SWORN IN AS UNDER SECRETARY OF THE TREASURY (ENFORCEMENT)

Ronald K. Noble was sworn in on July 7 as Under Secretary of the Treasury (Enforcement), a position established earlier this year by Congress at the request of the Administration.

President Clinton nominated Noble to be Under Secretary in April 1994. Before that time, Noble served as Assistant Secretary of the Treasury (Enforcement).

As Under Secretary, Noble directs Treasury law enforcement. The Treasury Department plays a substantial law enforcement role, with oversight responsibility for the Bureau of Alcohol, Tobacco and Firearms; the Customs Service; the Secret Service; the Criminal Investigative Division of the Internal Revenue Service; the Federal Law Enforcement Training Center; the Financial Crimes Enforcement Network; and the Office of Foreign Assets Control. Noble is the highest-ranking African American in the history of federal law enforcement.

From 1989 until joining Treasury, Noble was a law professor at New York University School of Law. He also served as deputy assistant attorney general at the Justice Department. He served as an assistant U.S. Attorney in the Eastern District of Pennsylvania from 1984 to 1988, successfully prosecuting Philadelphia's largest public corruption case and a $50 million-a-year cocaine ring.

Noble earned a J.D. from Stanford Law School, where he served as articles editor of the Stanford Law Review, and a B.A. from the University of New Hampshire, where he majored in Economics and Business Administration. Noble was born in Fort Dix, N.J.

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LB-939

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

JNDER SECRETARY

RONALD K. NOBLE
UNDER SECRETARY FOR ENFORCEMENT

Ronald K. Noble was sworn in as the first Treasury Under Secretary for Enforcement on July 7, 1994. This new post was created by a 1993 law to reflect the Treasury Department's important and growing role in federal law enforcement.

Noble oversees the Office of Enforcement, which includes the *Bureau of Alcohol, Tobacco and Firearms*; *U.S. Customs Service*; *U.S. Secret Service*; *Financial Crimes Enforcement Network*; *Office of Foreign Assets Control*; *Federal Law Enforcement Training Center;* and *Executive Office of Asset Forfeiture*. These bureaus have a combined workforce of over 29,000 employees and a budget of approximately $2.4 billion. Noble is also responsible for providing law enforcement policy guidance to the Criminal Investigation Division of the I.R.S. In total, the Treasury Department contains one-third of all federal criminal investigators.

Under Noble's leadership, a comprehensive White House Security Review was completed to ensure an appropriate level of protection for the President; the Customs Service began a historic reorganization; a Tax Refund Fraud Study was conducted to reduce systemic fraud; ATF implemented the assault weapons ban and the Brady Handgun Violence Prevention Act; and the Financial Crimes Enforcement Network was restructured to use regulatory authority and private sector partnerships to deter and detect money laundering.

To deal with the growing problem of international organized crime, Noble has fostered a closer working relationship between Treasury Enforcement and the international law enforcement and financial communities. He serves on INTERPOL's Executive Committee; INTERPOL embraces the police organizations of 176 countries. Additionally, Noble is President-elect of the Financial Action Task Force, a multi-lateral body of 26 countries created by the G-7 to fight international money laundering.

Noble was promoted to Under Secretary after serving as Treasury's Assistant Secretary for Enforcement, a Presidential appointment he held since May 1993. He was widely credited in that post for leading a candid and comprehensive investigative review of ATF's raid of the Branch Davidian Compound near Waco, Texas. Before joining the Treasury Department, Noble was an Associate Professor at the New York University School of Law. From 1988 to 1989, Noble served as Deputy Assistant Attorney General, Special Counsel, and Chief of Staff at the U.S. Justice Department's Criminal Division in Washington, D.C.

Noble began his public service career in Philadelphia, where he was an Assistant U.S. Attorney from 1984 to 1988. Noble was noted for his prosecution of major cases involving public corruption and drug trafficking. He successfully prosecuted each case taken to trial. In Philadelphia, Noble also served as Senior Law Clerk to the Honorable A. Leon Higginbotham, Jr., of the U.S. Court of Appeals for the Third Circuit.

Noble earned a J.D. from Stanford Law School in 1982, where he served as Articles Editor of the *Stanford Law Review* and president of his graduating class. Noble received a B.A. in Economics and Business Administration, *cum laude,* from the University of New Hampshire in 1979. He was born in Fort Dix, New Jersey.

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FOR RELEASE AT 2:30 P.M.
July 12, 1994

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $24,800 million, to be issued July 21, 1994. This offering will provide about $250 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $24,555 million.

Federal Reserve Banks hold $6,372 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $2,074 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

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

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

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Attachment

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JULY 21, 1994

July 12, 1994

Offering Amount	$12,400 million	$12,400 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 L8 5	912794 P9 9
Auction date	July 18, 1994	July 18, 1994
Issue date	July 21, 1994	July 21, 1994
Maturity date	October 20, 1994	January 19, 1995
Original issue date	October 21, 1993	July 21, 1994
Currently outstanding	$27,765 million	---
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

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

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

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

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

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

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

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

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

Department of the Treasury
Abbreviated Statement of
George Muñoz
Assistant Secretary (Management)/
Chief Financial Officer
before the
House Committee on Government Operations
Subcommittee on Commerce, Consumer and Monetary Affairs
July 13, 1994

Mr. Chairman and Distinguished Members of the Subcommittee:

Good morning. I am pleased to be here and have this opportunity to discuss the experiences of the Department of the Treasury in implementing the Chief Financial Officers (CFO) Act of 1990. I have previously submitted my statement for the record. If I may, I would like to dispense with reading my entire statement and limit my remarks to the highlights of Treasury's CFO Act implementation.

It is my firm belief that Treasury has a good story to tell. Overall, implementing the CFO Act has been a positive experience, and we are proud of the accomplishments we have made. Treasury has substantially complied with the provisions of the Act. However, we recognize that all of us at Treasury have much work to do, until we can get to our goal of receiving unqualified audit opinions for all Treasury entities.

Implementation Actions at Treasury

I want to emphasize that the Department of the Treasury has been a very enthusiastic supporter of the CFO Act since the beginning. And we continue to take many actions to help ensure full implementation of the Act. Soon after the Act was passed, we developed a comprehensive plan to ensure proper implementation of the Act within the Department. In carrying out our plan, we made organizational changes, revised many internal policy directives, consolidated financial management responsibilities under the Department's CFO, and established the Financial Management Council. We also completed various studies in key areas to assist with our implementation efforts - financial statement preparation, integrated financial systems, financial reports filing procedures, and performance measures. We also developed a financial statement model to assist our bureaus. The results of these efforts have been shared Government-wide.

LB-941

We have been addressing CFO training needs through a variety of sources such as the Department's Center for Applied Financial Management, the Treasury Executive Institute, the George Washington University Federal Financial Management Program, the Treasury Inspector General's Auditor Training Institute, and rotational developmental assignments in the Department's CFO organization.

Other initiatives we have completed include the revision of the Department's *Accounting Principles and Standards Manual*; the provision of guidance and financial support for financial systems improvements; conversion to a common payroll system; the establishment of a new Office of Financial Systems and Reports, and the formation of the Financial Management Systems Advisory Committee.

Another initiative we are especially proud of is the voluntary submission of the Bureau of Engraving and Printing's audited financial statements and CFO Annual Report several months ahead of OMB's established schedule. The Bureau completed this task with a quality submission, which illustrates that this objective can be attained in bureaus with experience in producing annual financial statements.

Of course, one of Treasury's highest priorities has been improving its financial management performance. This commitment will continue. Much has been accomplished, but much remains to be done.

<u>Follow-up to the Department's System Integration Report</u>

Mr. Chairman, in your invitation letter you stated that the Subcommittee was very interested in the status of the Department's ***Financial Management Systems Integration Study Team Report***. I am very pleased to report to you that Treasury has either completed or has in process many actions in response to all 15 recommendations in the report. We have established the Financial Management Systems Advisory Committee, reduced the number of core financial management systems used within the Department, established financial management systems standardization principles, and completed a draft requirements document for Departmental database. Three of our bureaus will serve as pilots for this database this fiscal year. We will continue implementing this study's recommendations in order to streamline and improve our financial management systems.

<u>Progress Made at CFO Act designated Treasury Bureaus</u>

We are both encouraged and challenged by the results of this year's CFO Act audits. Approximately $1.2 trillion, or 80 percent, of the Department's total collections and expenditures were audited. This year's audit results reflect improvement in that seven of the eleven entities received unqualified audit opinions, as compared with only four out of ten in fiscal year 1992.

I want you to know that Treasury is very aware of the three disclaimers it received. The Internal Revenue Service and U.S. Customs Service again received disclaimers of opinion on their financial statements. Nonetheless, the General Accounting Office noted significant efforts and progress by both bureaus toward resolving their long standing financial management problems. And the U.S. Mint, while receiving a disclaimer on its fiscal year 1993 operating statements, received an unqualified opinion on its statement of financial position. The Mint had received an overall disclaimer for fiscal year 1992.

Actions to ensure these disclaimers do not continue have been taken by Secretary Bentsen on down. Concerned with the 1992 disclaimers, the Secretary submitted the Department's fiscal year 1993 ***Federal Managers' Financial Integrity Act Report*** to the President and Congress with a commitment for cleaning up the problems identified by the General Accounting Office. Further, the Secretary met individually with the Bureau Heads and CFOs of IRS, Customs and the Mint to personally deliver this message and obtain the same commitment from each bureau.

While Treasury is pleased with the progress being made, we realize that pervasive problems remain to be corrected, particularly in our revenue collection activities. Plans have been developed and are being implemented to remedy these problems; one of the Department's highest financial management priorities is to produce timely, useful financial statements which receive unqualified audit opinions. I am working with our bureau CFOs to achieve this objective as soon as possible.

Treasury's Plan for the Future

We realize we have our work cut out for us. The importance of sound financial management practices and useful financial information have long been neglected throughout the Federal Government, and the resulting problems we face today will not be corrected overnight. However, I am confident that we are making, and will continue to make, significant progress. The CFO Act is yielding many positive results, not the least of which is simply the identification of problems that need fixing. Many of our ongoing initiatives to improve financial management across the Department have been previously discussed. I would like to add that we have established a Departmental CFO Council, and developed Department-wide financial management priorities. We are working to expand financial statement audit coverage to the entire Department, pressing for positive change through the Government-wide CFO Council, and emphasizing training needs.

Recommendations to the Subcommittee

Mr. Chairman, this Subcommittee can be of tremendous assistance to the Department, and to all other agencies, in helping us achieve the goals of the CFO Act. In addition to your demonstrated strong interest in the CFO Act itself, I would like to enlist your support in several key areas. I urge you to carefully consider my discussion of these areas in my prepared statement.

I believe we need to maintain **broad** CFO organizational structures. While it might appear that having responsibility over many diverse functional areas might dilute the time I have for strictly CFO matters, in reality it provides me with important leverage in improving the Department's financial management. This CFO set up works well at Treasury - I am confident it will work at other agencies.

We need to emphasize the need for investing in our financial management infrastructure **now** if we want to truly achieve the CFO Act's goals, by sending a stronger message of the need to invest more in training our financial managers so they can become skilled in the new practices and technologies, and investing more in financial systems so we can fully utilize current and future technological advancements. I also request that the Subcommittee endorse the new structure of the Government-wide CFO Council, and recognize the CFO Council as a vehicle for change. The Council recently adopted a new structure that provides for elected officers, expanded membership, and other important changes. I think a strong endorsement of these changes by the Subcommittee would provide the new Council with a greater impetus to strive for making the concrete improvements we all want to achieve.

Thank you, Mr. Chairman. This concludes my remarks this morning. I would be pleased to address any questions you or the Members of the Subcommittee may have.

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PUBLIC DEBT NEWS

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

FOR IMMEDIATE RELEASE
July 13, 1994

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 69-DAY BILLS

Tenders for $6,035 million of 69-day bills to be issued July 15, 1994 and to mature September 22, 1994 were accepted today (CUSIP: 912794L77).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	4.32%	4.42%	99.172
High	4.34%	4.44%	99.168
Average	4.33%	4.43%	99.170

Tenders at the high discount rate were allotted 1%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$41,740,000	$6,034,500
Type		
Competitive	$41,740,000	$6,034,500
Noncompetitive	0	0
Subtotal, Public	$41,740,000	$6,034,500
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$41,740,000	$6,034,500

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Department of the Treasury
Statement of
George Muñoz
Assistant Secretary (Management)/
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July 13, 1994

Mr. Chairman and Distinguished Members of the Subcommittee:

Good morning. I am pleased to be here and have this opportunity to discuss the experiences of the Department of the Treasury in implementing the Chief Financial Officers (CFO) Act of 1990. It is my firm belief, that Treasury has a good story to tell. Overall, it has been a positive experience, and we are proud of the accomplishments we have made. Treasury has substantially complied with the provisions of the CFO Act. However, we recognize that all of us at Treasury have much work to do, until we can get to our goal of receiving unqualified audit opinions for all Treasury entities.

As you know, when the CFO Act was first passed, it required all revolving funds and commercial type activities to be audited for fiscal year 1991. Initially, this resulted in seven Treasury entities being audited for fiscal year 1991. (One small fund, the Check Forgery Fund, subsequently ceased operations, and therefore was not audited after FY 1991.) Waivers were granted for the Internal Revenue Service and the U.S. Customs Service for preparation and audit of the fiscal year 1991 financial statements because they were specifically designated in the Act as pilots (due to the revenue collection functions) to prepare agency-wide financial statements for fiscal year 1992. Since the initial seven audits of fiscal year 1991, Treasury coverage has grown to eleven audits for fiscal year 1993.

Treasury's Support of the CFO Act

Treasury's actions have demonstrated strong support of the CFO Act and its intentions to improve financial management practices and make them more effective within the Federal Government. Immediately upon passage of the Act, Treasury took several initial steps to help ensure a successful implementation of the Act.

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For example, we:

- **Developed an Implementation Plan** -- Upon enactment of the CFO Act, Treasury prepared a CFO Act implementation plan that was approved by the Office of Management and Budget;

- **Ensured Follow-Through for Our Plan** -- Following OMB approval of Treasury's CFO Act implementation plan, a CFO and Deputy CFO were appointed. Our original Deputy CFO, Ed Verburg, is still in that position today. Although there have been three CFOs at Treasury since inception of the Act, the stability of the Deputy CFO has provided the continuity needed to keep the momentum going for implementation of our plan;

- **Transferred Revenue Systems Responsibilities to CFO** -- Responsibilities for the Oversight of Treasury's bureau specific revenue systems, such as the Internal Revenue Service and U.S. Customs Service, were transferred from the Fiscal Assistant Secretary to the Assistant Secretary (Management)/Chief Financial Officer to centralize systems responsibilities under the Department's CFO;

- **Developed Plan for Department-wide Coverage** -- The Department submitted an action plan for the preparation and subsequent audit of bureau financial statements for the approval of the Office of Inspector General;

- **Initiated Early GAO Involvement** -- The Department's CFO wrote to Comptroller General Bowsher requesting that an informal pilot project between GAO and Customs be established in 1991 -- one year ahead of what the Act required for Customs -- to develop financial statements that will not only meet the requirements of the Act, but will provide an example which will be helpful to other agencies; and

- **Used the Department's Automated Tracking System** -- The Inventory, Tracking and Closure Systems is used as the basis for tracking the status of management's corrective actions needed to eliminate the Inspector General and General Accounting Office audit findings.

Implementation Actions at Treasury

I want to emphasize at every opportunity that the Department of the Treasury has been a very enthusiastic supporter of the CFO Act, not only from the beginning, but we continue to methodically take many actions to help ensure full implementation of the Act. As I stated before, soon after the Act was passed, Management developed a comprehensive plan to ensure proper implementation of the Act within the Department.

Some of the more significant actions completed from the implementation plan include:

- **Made Organizational Changes** -- We realigned financial management responsibilities to conform to the Act's requirements, with particular emphasis on the CFO's responsibility for financial systems development;

- **Revised Many Internal Policy Directives** -- We consolidated Department-wide financial management responsibilities under the Department's CFO;

- **Established a Financial Management Council** -- This group is composed of Departmental and Treasury bureau senior financial managers and representatives from the Office of Inspector General. The Council's primary function is to address the Act's financial statement preparation and audit issues; and

- **Completed Substantial Reports and Guidelines** -- Under the direction of the Financial Management Council, Management:

    - Performed an interagency survey of "lessons learned" in the financial statement preparation and audit process;

    - Performed an in-depth study of the options available to develop an integrated, Departmentwide financial management system, which is the basis for ongoing efforts in this area;

    - Performed a study of financial report filing procedures, which includes recommendations on how to ensure necessary CFO review and approval of financial reports;

    - Developed a Comprehensive Financial Statement Model to serve as guidance for all Treasury entities; and

    - Worked extensively with the bureaus, the Office of Management and Budget, and many other interested parties, to develop comprehensive, meaningful program and financial performance measures, which we will continue to refine.

The results of these efforts have been shared Government-wide with all Departments and agencies.

- **Addressed CFO Training Needs** -- The Department's CFO organization is supporting a wide variety of financial management training initiatives, including:

  - Development of financial management courses offered by the Center for Applied Financial Management of the Financial Management Service;

  - Development of seminars conducted by the Treasury Executive Institute;

  - Working with George Washington University to develop a curriculum in Federal financial management;

  - Development of a prototype Departmental Financial Management Honors Program;

  - Initial budgetary support for the Treasury Inspector General's Auditor Training Institute, which is now self-supporting;

  - Active participation in financial management conferences (e.g., Joint Financial Management Improvement Program, Association of Government Accountants);

  - Rotational developmental assignments in the Department's CFO organization; and

  - Working towards the development of standard courses in the management controls area.

Additionally, Treasury has:

- **Completely revised and reissued the Department's Accounting Principles and Standards Manual** -- This manual provides Treasury's bureaus with guidance in this important area;

- **Provided Guidance and Financial Support for Financial Systems Improvements** -- We support the use of off-the-shelf financial system software packages by the bureaus, which has led to a high level of standardization throughout the Department;

- **Established a New Office of Financial Systems and Reports** -- This office provides additional focus on the development of an integrated Departmentwide financial management system;

- **Formed a Financial Management Systems Advisory Committee --** This group coordinates the standardization of ancillary systems throughout the Department;

- **Volunteered to Submit an Audited Financial Statement Several Months Ahead of OMB's Established Schedule --** The Bureau of Engraving and Printing completed this task with a quality submission, which illustrates that this objective can be attained in bureaus with experience in producing annual financial statements;

- **Converted All of Treasury to a Common Payroll System --** This was accomplished through a cross-servicing arrangement with the Department of Agriculture;

- **Increased the Level of Departmental Emphasis on Bureau Five-Year Financial Management Plans --** We have ensured that financial systems projects are in accordance with Departmental goals and that appropriate funding has been requested in the bureaus' budget submissions; and

- **Continued Our Emphasis on Having a Strong Federal Managers' Financial Integrity Act/Management Control Improvement Program --** This allows the Department to closely monitor progress by our bureaus in addressing identified deficiencies.

One of Treasury's highest priorities has been improving its financial management performance. This commitment will continue. Much has been accomplished, but much remains to be done.

Follow-up to the Department's System Integration Report

Mr. Chairman, in your June 15, 1994 invitation letter to me you stated that the Subcommittee was very interested in the status of the Department's ***Financial Management Systems Integration Study Team Report.*** I am very pleased to report to you that Treasury has either completed or has in process many actions in response to all 15 recommendations in the report.

Some of the more significant actions we have taken are as follows:

- **Established the Financial Management Systems Advisory Committee --** This group is responsible for developing recommendations on standardizing financial management and revenue systems;

- **Reduced the Number of Core Financial Management Systems --** We have reduced the number of core systems from nine to four in the last four years. In fiscal year 1989 there were 9 systems in Treasury's 11 bureaus. In fiscal year 1994 there are 4 systems in Treasury's 12 bureaus. And finally, our goal is to be reached in fiscal year 1996 when we intend to have only 2 systems within all of Treasury's 12 bureaus;

- **Completed a Draft Requirements Document for Departmental Database --** This document describes the financial information requirements for our Department-wide integrated database. We will begin a phased-in implementation of the Departmental Database with live data transfer from three pilot bureaus: (1) USCS; (2) IRS; and (3) ATF in September 1994;

- **Established Financial Management Systems Standardization Principles --** These principles were jointly developed by the Departmental Office of Procurement and the Departmental Office of Information Systems;

- **Established Cross-Servicing Arrangements --** We have worked to increase the utilization of cross-servicing opportunities between various offices and bureaus within Treasury (e.g., between FinCEN and the United States Customs Service, the Office of Inspector General and Departmental Offices, and the United States Savings Bond Division and the Bureau of Public Debt) for administrative accounting services using off-the-shelf software;

- **Provided Support for Financial Systems Conversion at the Financial Management Service (FMS) --** the bureau has elected to pursue a conversion to one of the two designated standard core financial systems through a cross-servicing arrangement with its Center for Applied Financial Management. The FMS is the seventh bureau to select FFS as its core financial system; and

- **Selected a Standard Department-wide Travel Subsystem.**

Progress Made at CFO Act designated Treasury Bureaus

We are both encouraged and challenged by the results reflected by the results of this year's CFO Act audits. Approximately $1,215 billion, or 80 percent, of the Department's total collections and expenditures were audited. These audits represent 100 percent of the accounts required to be audited by the CFO Act. This year's audit results, as shown below, reflect improvement in that seven of the eleven entities received unqualified audit opinions, one received a qualified opinion, and three received disclaimers of opinion. Comparatively, for fiscal year 1992, only four entities received unqualified opinions, two received qualified opinions, and four received disclaimers.

Summary of CFO Act Audit Results

	Fiscal Year Audited		
Type of Audit Opinion	1991	1992	1993
Unqualified	5	4	7
Qualified	0	2	1
Adverse	1	0	0
Disclaimer	0	4	3
Total	6	10	11

There are other significant highlights for the year that should be emphasized. The newly created Treasury Asset Forfeiture Fund received its initial audit for fiscal year 1993, and obtained an unqualified opinion. The Bureau of Engraving and Printing again voluntarily accelerated its financial statement preparation and audit processes. The Bureau completed its audited financial statements in December, 1993, and its entire CFO report by January 30, 1994. This accomplishment was lauded by OMB as a model for other Federal entities.

I want you to know that Treasury is very aware of the three disclaimers it received. The Internal Revenue Service and U.S. Customs Service again received disclaimers of opinion on their financial statements. Nonetheless, the General Accounting Office noted significant efforts and progress by both bureaus toward resolving their long standing financial management problems by installing new core financial management systems and addressing a host of other concerns identified during GAO's fiscal year 1992 audits. In fact, from all of the CFO Act related GAO audit reports for fiscal year 1992 on Customs and IRS, significant activity can be measured by the number of actions taken. Customs has a total of 60 GAO recommendations of which 35, or 58 percent, have been either completed or action is in progress. IRS has a total of 44 GAO recommendations of which 22, or 50 percent, have been either completed or action is in progress. And, finally, the U.S. Mint, while receiving a disclaimer on its fiscal year 1993 operating statements, received an unqualified opinion on its statement of financial position.

Actions to ensure these disclaimers do not continue have been taken by the Secretary of the Treasury on down. Concerned with the disclaimers that were received for fiscal year 1992, the Secretary submitted to the President and Congress the Department's fiscal year 1993 ***Federal Managers' Financial Integrity Act*** Report with a commitment for cleaning up the problems and a plan of corrective actions to ensure that adequate internal controls are in place over their financial management systems not later than three years from now. Further, the Secretary met in early 1994 with the Bureau Heads and CFOs of IRS, Customs and the U.S. Mint to personally deliver this message and obtain the same commitment from each bureau.

While Treasury is pleased with the progress being made, we realize that pervasive problems remain to be corrected, particularly in our revenue collection activities. Plans have been developed and are being implemented to remedy these problems; one of the Department's highest financial management priorities is to produce timely, useful financial statements which receive unqualified audit opinions. I am working with our bureau CFOs to achieve this objective as soon as possible.

Problems encountered with Implementing the Act

Overall, we have not experienced any major problems implementing the CFO Act. Some of the obstacles we have been working to overcome are listed below:

- Antiquated financial management systems;
- Lack of experience in preparing CFO type financial statements;
- Development of meaningful performance measures; and
- Lack of appreciation for financial and programmatic performance data on the part of program managers.

We believe we are making progress in overcoming all of these obstacles.

Treasury's Plan for the Future

We realize we have our work cut out for us. The importance of sound financial management practices and useful financial information have long been neglected throughout the Federal Government, and the resulting problems we face today will not be corrected overnight. However, I am confident that we are making, and will continue to make, significant progress. The CFO Act is yielding many positive results, not the least of which is simply the identification of problems that need fixing. Many of our ongoing initiatives to improve financial management across the Department have been previously discussed. The additional initiatives described below will help us go a long way towards realizing the goals of the CFO Act.

- **Established a Departmental CFO Council --** We created a Departmental CFO Council, effective July 1, 1994. I am the chairperson of this Council, which is composed of our bureaus' CFOs. This Council ensures that the Department's financial management goals and expectations are clearly communicated throughout the Department, and provides an additional forum for the discussion of current financial management topics and problem resolution.

- **Developed Department-wide Financial Management Priorities --** Working through our Departmental CFO Council described above, we will be striving to accomplish these priorities over the next few years. These priorities include the upgrading of our financial systems so they can produce timely, useful, auditable information throughout the Department.

- **Expand Financial Statement Audit Coverage --** In order to provide expanded audit coverage of all our activities, we are currently planning to have financial statement audits of the Bureau of Alcohol, Tobacco and Firearms and the Bureau of the Public Debt, and to then have the remaining Treasury entities participate in this endeavor. Our goal is to prepare Department-wide financial statements for fiscal year 1996.

- **Work for Positive Change Through the CFO Council --** I am serving as the Executive Vice-chair of the Government-wide CFO Council. In this capacity, I will ensure that the Department's financial management goals and practices will also satisfy the financial information needs of all interested parties; and

- **Emphasize Training Needs --** As described above, we need to continue our efforts toward the development of standard, comprehensive financial management training.

Recommendations to the Subcommittee

Mr. Chairman, this Subcommittee can be of tremendous assistance to the Department, and to all other agencies, in helping us achieve the goals of the CFO Act. In addition to your demonstrated strong interest in the CFO Act itself, I would like to enlist your support in the following key areas:

- **Maintain Broad CFO Organizational Structures --** Besides the traditional CFO type functions, I have many other responsibilities as Treasury's Assistant Secretary (Management)/CFO - budget formulation, personnel, procurement, and information resources management, to name a few. The day-to-day responsibilities in these areas are handled by my capable Deputies.

While it might appear that having responsibility over all these functional areas might dilute the time I have for strictly CFO matters, in reality it provides me with important leverage in improving the Department's financial management. I am able to exercise control over formulating financial management budget requests, attracting and retaining qualified financial managers, obtaining the necessary contractual support for accounting and auditing services, and developing appropriate financial management systems.

In a mature financial management environment, having a narrowly focused CFO could probably work well and allow things to continue running smoothly. However, we are not there yet. Until we are, I think bold measures are needed. Having CFOs with broad organizational responsibilities, recognized authority, and clear access to the agency head is necessary to give financial management improvement the clout it needs to move forward and provide the proper support for managing the government's programs. This CFO set up works well at Treasury - I am confident it will work at other agencies.

- **Emphasize the Need for Investing in Our Future --** We need to invest in our financial management infrastructure **now** if we want to truly achieve the CFO Act's goals. There needs to be a stronger message sent that we need to invest more in training our financial managers so they can become skilled in the new practices and technologies, and invest more in financial systems so we can fully utilize current and future technological advancements. The pace of change in both areas continues to increase, and we must increase our rate of change accordingly.

- **Endorse the New Structure of the Government-wide CFO Council --** The Council recently adopted a new structure that provides for elected officers, expanded membership, and other important changes. I think a strong endorsement of these changes by the Subcommittee would provide the new Council with a greater impetus to strive for making the concrete improvements we all want to achieve.

- **Recognize the CFO Council as a Vehicle for Change --** The endorsement requested above would be especially supportive if it recognized the key role the new Council can fill as an authoritative body for conducting studies, initiating improvements, and making recommendations to the Executive and Legislative Branches. This would give extra creditability to the Council as a true vehicle for change.

Thank you, Mr. Chairman. This concludes my prepared remarks. I would be pleased to address any questions you or the Members of the Subcommittee may have.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
July 13, 1994

Contact: Rebecca Lowenthal
(202) 622-2960

TREASURY TO REVIEW NEW FEATURES FOR U.S. CURRENCY DESIGN

Treasury Secretary Lloyd Bentsen announced Wednesday the Treasury Department's plans for modernizing U.S. currency.

A series of anti-counterfeit security features under consideration was presented to the House Banking Committee by members of the Advanced Counterfeit Deterrence Steering Committee, which oversees deterrence efforts. Secretary Bentsen re-convened the steering committee last year in response to the growing threat that advanced computer-based reprographic technologies pose to the integrity of U.S. currency.

The features authorized for testing and development include changes in the paper, ink and design of currency notes, including an enlarged off-center portrait on each denomination; a matching watermark; an enhanced security thread in a different location on each denomination; expanded use of microprinting in the design and on reflective material embedded in the paper, or planchettes; and interactive, or moire, patterns that turn into wavy, irregular patterns when copied.

Changes in the size, basic colors, portrait subjects or historic vignettes are not under consideration.

Since the technology available for counterfeiting is evolving, the final design will allow Treasury to include new deterrence features and discontinue those which lose their effectiveness as technology improves. The new security features will allow merchants and the public to more readily identify genuine notes. Covert features, which can be identified by machines, will enhance the banking system's ability to detect counterfeits.

<u>The Treasury will not recall, devalue or demonetize any currency</u>. As with past changes, old notes will remain fully valued legal tender and will be retired only when they are returned to the Federal Reserve. A final design is expected to be approved in 1995, with issuance of newly-designed $100 bills about a year later. The issuance of new smaller denominations would follow.

More than $350 billion in U.S. currency notes is in circulation, over half outside the United States.

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LB-944

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

THE HISTORY OF PAPER MONEY SINCE THE 1860s

1861 The United States Treasury issued paper money for the first time in the form of non-interest bearing Treasury Notes called Demand Notes.

1862 Demand Notes were replaced by United States Notes. Commonly called "greenbacks," they were last issued in 1971. The Secretary of the Treasury was empowered by Congress to have notes engraved and printed, which was done by private banknote companies.

1863 The design of U.S. currency incorporated a Treasury seal, the fine line engraving necessary for the difficult-to-counterfeit intaglio printing, intricate geometric lathe word patterns, and distinctive linen paper with embedded red and blue fibers.

1865 Gold certificates were issued by the Treasury against gold coin and bullion deposits and were circulated until 1933.

1865 The Treasury established the United States Secret Service to control counterfeits, at that time amounting to one-third of circulated currency.

1866 National Bank Notes, backed by U.S. government securities, became predominant. By this time, 75 percent of bank deposits were held by nationally-chartered banks. As State Bank Notes were replaced, the value of currency stabilized for a time.

1877 The Department of the Treasury's Bureau of Engraving and Printing (BEP) started printing all U.S. currency, although other steps were done outside.

1878 The Treasury was authorized to issue Silver Certificates in exchange for silver dollars. The last issue was in the Series of 1957.

1910 BEP assumed all currency production functions, including engraving, printing, and processing.

1913 After 1893 and 1907 financial panics, the Federal Reserve Act of 1913 was passed. It created the Federal Reserve System as the nation's central bank to regulate the flow of money and credit for economic stability and growth. The system was authorized to issue Federal Reserve Notes, now the only U.S. currency produced and 99 percent of all currency in circulation.

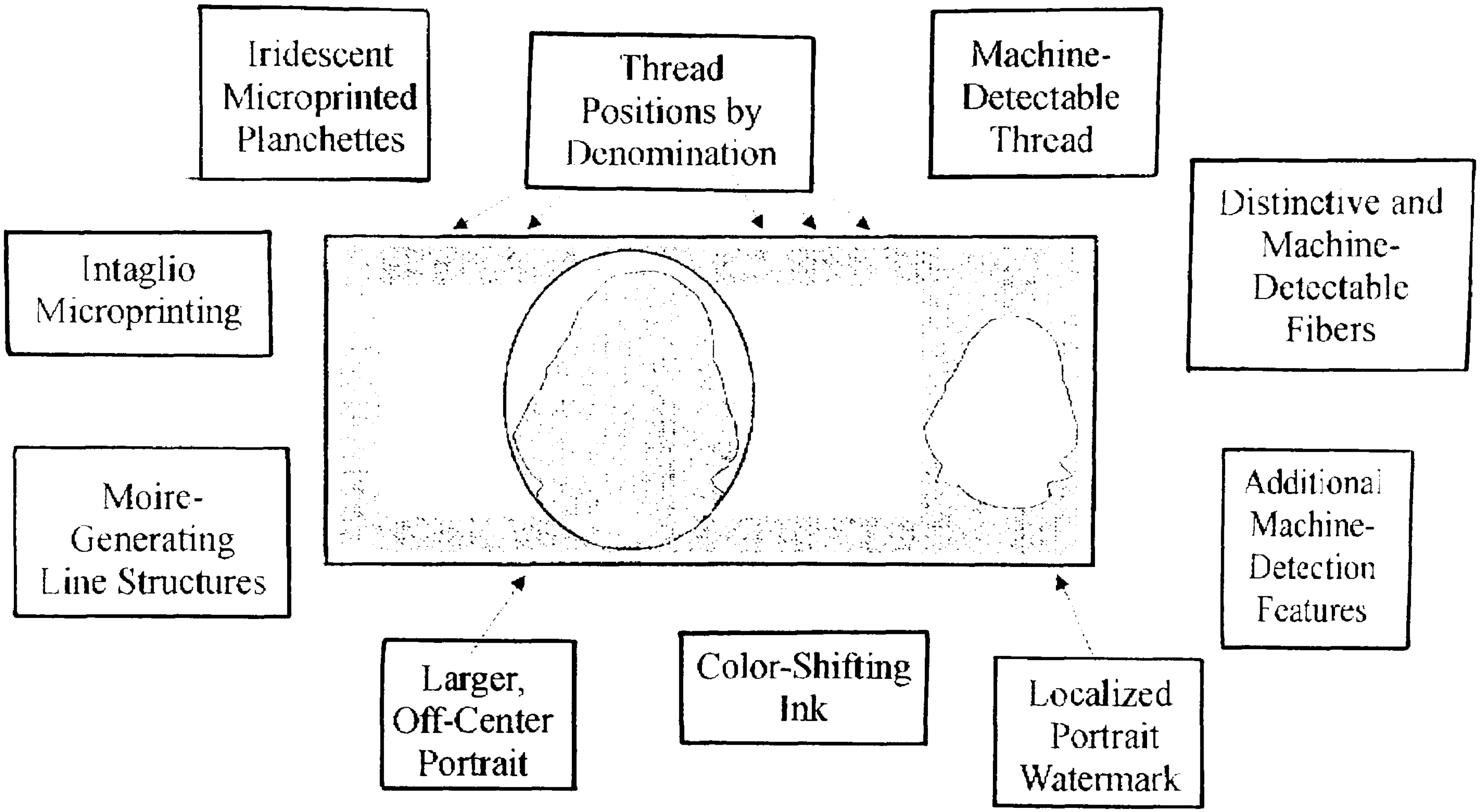
1929 Currency was reduced in size by 25 percent and standardized with uniform portraits on the faces and emblems and monuments on the backs.

1957 Paper currency was first issued with "In God We Trust" as required by Congress in 1955. The inscription appears on all currency Series 1963 and beyond.

1990 A security thread and microprinting were introduced, first in $50 and $100 notes, to deter counterfeiting by advanced copiers and printers.

July 13, 1994

FEATURES UNDER CONSIDERATION



Shaded portions indicate areas for numerals, titles and traditional engraved borders.

DEFINITIONS OF FEATURES

Distinctive and Machine-Detectable Fibers. Special fibers with specific properties are often added to security papers for forensic purposes. Modern security fibers can be designed to incorporate many types of machine-detectable characteristics.

Iridescent Planchettes. Traditional planchettes are colored pieces of tissue paper a few millimeters in diameter incorporated directly into the paper, either in rows or randomly distributed. In newer planchettes, such features as microprinting and iridescence are used to enhance their security.

Security Thread. A security thread is a thin thread or ribbon running through a banknote substrate. It is a versatile feature, with many types currently available, including microprinted, metallic, magnetic, windowed and imbedded. The thread currently in use in U.S. currency is an embedded, microprinted thread which can be seen when held to a light. This characteristic makes it impossible to copy with a color copier, which uses reflected light to generate an image.

Watermark. A watermark is an image formed by purposely creating localized variations in the paper density during the papermaking process. The image is visible as darker and lighter areas when held against a light source. Like the embedded thread, it does not copy on color copiers.

Color-Shifting Inks. These inks change color when viewed from different angles. For instance, an ink that may appear gold when viewed directly may change to green when viewed obliquely.

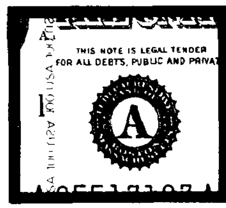
Moiré-Generating Line Structures. These types of line structures appear normal to the human eye but cannot be properly resolved by scanning equipment. This results in the creation of spurious images, or moiré patterns, in the digital output, producing a copy that is noticeably distinguishable from the original.

July 13, 1994

CURRENT SECURITY FEATURES

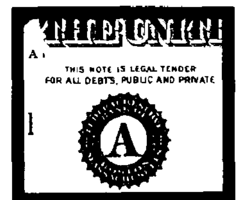
NEW FEATURES

TO DETER COUNTERFEITING WITH ADVANCED COPIERS, SCANNERS, AND PRINTERS.



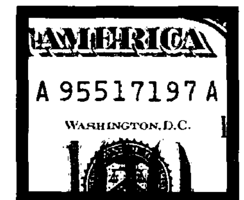
SECURITY THREAD

Embedded polyester strip with repeated USA 50 or USA 100 in an up-and-down pattern. Visible when held to light. Cannot be reproduced in reflected light of copiers. In new Series 1990 $50 and $100 notes.



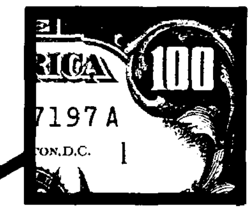
FEDERAL RESERVE SEAL

Issuing Federal Reserve Bank. Code letter same as first letter in two serial numbers.



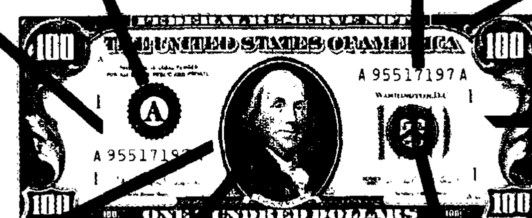
SERIAL NUMBERS

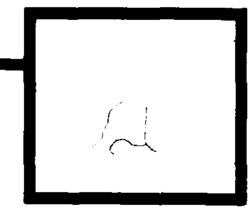
Two serial numbers distinctively styled and evenly spaced. Ink color same as Treasury seal. No two notes of *same series* and denomination have same serial number.



BORDER

Border's fine lines and lacy, weblike design distinct and unbroken.



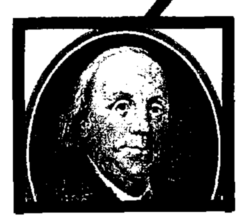


FIBERS

Tiny red and blue fibers embedded in paper.

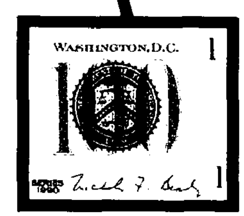
MICROPRINTING

"The United States of America" printed repeatedly on sides of portrait. Letters too small to read without a magnifier or for distinct copier reproduction. In new Series 1990 $50 and $100 notes.



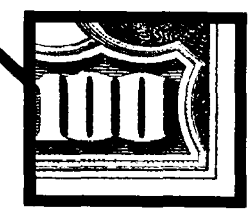
PORTRAIT

Lifelike portrait distinct from fine, screenlike background.



TREASURY SEAL

Sawtooth points sharp, distinct, and unbroken. Seal's color same as two serial numbers.



DENOMINATION

Note's value on corners same as over Treasury seal.

ENGRAVED PRINTING

Engraved plate printing gives new notes embossed "feel."

PAPER

Cotton and linen rag paper has strong, pliable "feel." No watermarks.

Published 1991

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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

ORAL STATEMENT OF
ROBERT P. CESCA
DEPUTY INSPECTOR GENERAL
U.S. DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON COMMERCE, CONSUMER AND MONETARY AFFAIRS
COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES HOUSE OF REPRESENTATIVES
CONCERNING
PROGRESS IN IMPLEMENTING
THE CHIEF FINANCIAL OFFICERS ACT
JULY 13, 1994

LB-945

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to discuss the implementation of the Chief Financial Officers (CFO) Act. The Act is a very significant piece of legislation that is having a profound effect on financial management throughout the Federal government and the manner in which financial activities are being audited by the Inspectors General. Accompanying me today is Mr. Jay Weinstein, the Assistant Inspector General for Audit.

I have abbreviated my statement somewhat, but request that it be submitted for the record in its entirety.

The Department has fully met its obligations to produce audited financial statements for the entities specified by the Act. Secretary Bentsen has stated his personal commitment to assuring that the Department of the Treasury both obtains unqualified opinions on all its financial statements as quickly as possible as well as setting the standard for financial management excellence. The Department has a qualified and committed Chief Financial Officer, Mr. George Muñoz, and each bureau has established its own Chief Financial Officer. These CFOs are focusing their attention on improving the financial management throughout the Treasury Department. Further, the Department has the distinction of having the first federal entity-- the Bureau of Engraving and Printing-- submit FY 1993 audited financial statements to OMB on January 31, 1994.

The impetus for improved financial management-- and greater attention to financial auditing-- both within the Department and government wide-- has clearly been the CFO Act. The Act required annual audited financial statements of certain entities within the Department, some of the more significant including the Internal Revenue Service, the U.S. Customs Service, the U.S. Mint, the Bureau of Engraving and Printing, to name just a few. The requirement to prepare and subject the statements to audit has significantly improved-- and in fact in some cases introduced-- financial accounting, reporting and management practices and procedures. Whether it was the discipline needed to prepare audited statements or the improvements identified by the audits themselves, there is no denying that financial management has improved within the Department. As evidenced by the audit reports on the IRS and Customs, while much more needs to be done, progress is being made.

Clearly, the Act has also impacted the way the Office of Inspector General (OIG) approaches financial statement audits. Having participated in the implementation of the Act and having worked with the General Accounting Office on the most recent audits of IRS and Customs, we have gained a better appreciation for the impact and magnitude of these audits. We better appreciate how CFO audits can pull together in one report information from separate audits in order to evaluate the financial management of an agency. We are also more sensitive to the linkages between financial statements and program performance measures.

I would like to take a moment and acknowledge the contributions made by the General Accounting Office. GAO's work in the Department has resulted in identifying many significant areas of improvement in the two largest Treasury bureaus-- the IRS and Customs. Further, as an auditor, I appreciate the magnitude and complexity of these two audits and I congratulate GAO for the job it did. We have benefitted by having the opportunity to work with GAO on its most recent audits and are better positioned now to perform the Customs audit.

In your June 15, 1994 letter inviting me to testify, you asked that I address the following issues, which were of particular interest to the Committee.

- What has been the Department's progress in implementing CFO Act requirements?

- What problems is the Department encountering in integrating the CFO Act requirements with requirements based on other laws applicable to financial management?

- What plans and preparations are in place for migrating the IRS and Customs CFO audits from the General Accounting Office to the Office of Inspector General?

- What strategy is there for committing sufficient Office of Inspector General staff resources to the Customs and IRS CFO audits in light of other audit priorities?

WHAT PROGRESS HAS BEEN MADE IN IMPLEMENTING THE CFO ACT?

The Department of the Treasury has made steady and effective progress in implementing the CFO Act. The Act required that trust and revolving funds and all commercial like activities have financial statements prepared and that they be subject to audit. In addition, the Act specifically identified the Internal Revenue Service and the Customs Service as pilot "agencies", for which "agency" wide financial statements be prepared and audited. As a result, the Department initially identified nine entities subject to the Act. Subsequently, two other entities were added, to bring the total 11.

In FY 1991, all but one audit required by the Act were accomplished. As permitted by the CFO Act, OMB granted the Mint a first year waiver from preparing its FY 1991 financial statements. For FY 1992, three additional Treasury bureaus' financial statements were audited-- IRS, Customs, and the Financial Management Service (FMS). In addition, the Mint's financial statements were audited. The Department's Asset Forfeiture Fund was audited beginning with FY 1993.

Therefore, beginning with FY 1992 and continuing with FY 1993, the Department has met its obligation to produce audited financial statements for the eleven entities specified by the Act. Approximately $1.2 trillion-- or 80 percent of Treasury's total collections and expenditures-- is subject to audit. Additionally, more than $11.5 billion-- or 90 percent-- of the Department's total operating budget was audited for FY 1993.

Significant financial statement audit activity has been accomplished in the Department. The two largest bureaus-- IRS and Customs-- have had their FY 1992 and FY 1993 financial statements audited by GAO with assistance in FY 1993 by the Office of Inspector General and the IRS's Office of the Chief Inspector. The other nine CFO audits have been accomplished by CPA firms contracted for either by the OIG or the audited entity, but in all cases with oversight provided for by the OIG.

In addition to what has already been accomplished, the Department has set a goal of preparing Department-wide financial statements for fiscal year 1996. In order to accomplish this goal, we are working with the Department to have audited FY 1995 financial statements for the Bureau of the Public Debt and the Bureau of Alcohol, Tobacco and Firearms.

As a result of the financial statement audits, the need for significant improvement in some of the largest Treasury financial operations have been identified. GAO was unable to express opinions on the reliability of either IRS' or Customs' financial statements due to the lack of reliable supporting information. In addition, GAO observed that internal controls were not properly designed and implemented: to effectively safeguard assets; to provide a reasonable basis for determining material compliance with laws and regulations; or to assure there were no material misstatements in the Principle Financial Statements. However, as a result of its FY 1993 audits, GAO reported that both IRS and Customs took important steps to address the problems GAO had identified. Similarly, our FY 1992 audit of the Mint identified problems with the Mint's financial operations that resulted in a disclaimer of opinion due to material weaknesses identified in the Mint's internal control structure, specifically, its fund structure, financial system, and financial statement preparation processes. The most recent audit of the Mint, however, showed that substantial progress was being made to address and correct these matters.

Treasury is making progress toward achieving Secretary Bentsen's goal of meeting the requirements of the Act and achieving unqualified opinions. Implementing the necessary improvements won't be easy; however, the commitment to improve is apparent.

WHAT PROBLEMS HAVE BEEN ENCOUNTERED INTEGRATING CFO ACT REQUIREMENTS WITH OTHER FINANCIAL MANAGEMENT REQUIREMENTS?

The Department is working to integrate the various financial management requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Government Performance and Results Act (GPRA) of 1993, OMB Circular A-127 "Financial Management Systems", and other related financial management requirements into a cohesive program.

The Department has routinely considered the results of the financial statement audits conducted as part of the CFO Act when evaluating its internal controls and financial management systems, as required by FMFIA. However, a real problem exists with the timing of the CFO and FMFIA reports. For FY 1993, FMFIA reports were issued by December 31, 1993, whereas the CFO audit reports were issued by June 30, 1994. The difference in the reporting dates causes a lack of true integration between the two programs-- the results of a CFO audit will not be reported out in time for consideration in that year's FMFIA report and would likely have to be considered in the subsequent year's FMFIA report.

The financial management community, OMB and the OIGs are looking for ways to better integrate the reporting requirements of the CFO and FMFIA. We have discussed this issue with the CFO and we intend to jointly approach OMB asking that the Department be identified as a prototype for exploring opportunities to better integrate the CFO and FMFIA programs.

Another program that is closely linked to the CFO Act is the Government Performance and Results Act, commonly referred to as GPRA. GPRA requires agencies to develop meaningful performance measures, which will provide a basis for comparing actual program results with established performance goals. However, in order to develop useful performance measures as envisioned by GPRA, accurate and reliable financial information is essential. This is because many of the measures that will be developed will likely have as input information generated from financial statements or systems. Thus, the successful implementation of GPRA is dependent upon the reliability of the financial systems generating this information. The Department is taking an active role in implementing the provisions of GPRA through improved financial operations and having a number of programs act as pilots under OMB's GPRA prototype program.

The Department is also actively pursuing greater financial systems integration, in recognition of the fundamental role that properly designed and well integrated systems have to effective financial management. In FY 1992, the Department established the Financial Management Systems Advisory Committee (FMSAC) to develop recommendations for standardizing financial management subsystems Department-wide.

In response to a request by both the Department and OMB, we have recently started an evaluation to assess the adequacy of the Department's financial systems integration efforts and whether its status as an OMB designated high risk area should be changed.

The true measure of the Department's success in implementing the CFO and all the other financial related Acts and programs will occur when financial information is used as a matter of course by program managers to manage their programs and influence their decision making. This has not yet happened, primarily because the information is not viewed as being reliable or timely. As the Department achieves the needed financial management improvements, we would expect to see greater evidence of integrating financial information into the management of Treasury programs.

WHAT IS BEING DONE TO MIGRATE THE CUSTOMS AND IRS AUDITS FROM GAO TO THE OIG?

The CFOs Act included IRS and Customs as "pilots" for CFO financial statement generation and audit. GAO exercised its prerogative, and conducted the FY 1992 and FY 1993 audits of the statements prepared by both IRS and Customs. GAO performed the audits for FY 1992. For the FY 1993 audits, our Office of Audit assigned 37 staff to assist GAO. In addition, the IRS's Office of the Chief Inspector provided approximately the same level of support. For the FY 1994 statements, the OIG will perform the audit of Customs and GAO will, in conjunction with IRS's Office of the Chief Inspector, perform the audit of IRS.

GAO has laid the groundwork and established the framework for the audit of the Customs Service. GAO developed the audit methodologies and identified the issues during its prior two audits that we will carry forward in our FY 1994 and future year audits. Further, we have clearly benefitted by having the opportunity to work side by side with experienced GAO auditors during their FY 1993 audits. We have identified areas where we need to improve in order to best perform the work required under the Act. For example, we are planning to contract for ADP and statistical sampling expertise until we can fully develop these essential skills in house. Further, we expect to assign a senior level official who will have a singular focus on the Customs CFO audit. For the FY 1994 Customs audit, we have redeployed auditors already on board, supplemented by new hires. The audit carries a personnel complement of approximately 40, with most lead positions being filled by in-house Certified Public Accountants who had worked with GAO on the FY 1993 audit. We will continue to consult with GAO throughout the course of the FY 1994 audit of Customs to ensure that the audit approaches at both Customs and IRS are appropriately consistent.

WHAT IS THE OIG'S STRATEGY FOR COMMITTING SUFFICIENT RESOURCES TO THE CFO AUDITS IN LIGHT OF OTHER PRIORITY AUDITS?

The OIG is committed to successfully performing its CFO related responsibilities. We are estimating that it will take us nearly 40 full time equivalents to perform the FY 1994 CFO audit at Customs and plan to perform the audit in-house, contracting out for only the audit of systems controls and needed statistical sampling expertise. We plan to continue to employ contractors for accomplishing the other CFOs Act-mandated audits. Because we will not be performing the FY 1994 CFO audit for IRS, we expect to expend only a limited amount of resources to liaison with GAO and maintain some level of familiarity with the IRS audit. This will expedite the transition of audit responsibility to the OIG when GAO decides to stop performing the audit.

Our FY 1995 CFO budget initiative asks for 21 additional Full-Time-Equivalents, to replace those who were redirected from other audits to work on the Customs CFO audit. While we view CFO Act as extremely important, the reality is that Treasury is a multi-faceted agency, with many other non-financial programs that are significant, needing programmatic review. Quite frankly, without the requested additional personnel, the OIG's overall effectiveness to evaluate the non-financial programs of the Department and meet its other mandates will likely be diminished.

In summary, Mr. Chairman, I believe that the Department of the Treasury has made significant progress in effectively implementing the CFO Act. However, more remains to be done. I also want to emphasize that I support the CFO Act and have a sincere commitment to effectively discharge the responsibilities assigned this Office by the Act.

I hope I have addressed the issues that are of concern to the Committee and will be pleased to answer any questions you and other members of the Committee may have.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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STATEMENT OF
ROBERT P. CESCA
DEPUTY INSPECTOR GENERAL
U.S. DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON COMMERCE, CONSUMER AND MONETARY AFFAIRS
COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES HOUSE OF REPRESENTATIVES
CONCERNING
PROGRESS IN IMPLEMENTING
THE CHIEF FINANCIAL OFFICERS ACT
JULY 13, 1994

LB-946

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to discuss the implementation of the Chief Financial Officers (CFO) Act. The Act is a very significant piece of legislation that is having a profound effect on financial management throughout the Federal government and the manner in which financial activities are being audited by the Inspectors General. Accompanying me today is Mr. Jay Weinstein, the Assistant Inspector General for Audit.

The Department has fully met its obligations to produce audited financial statements for the entities specified by the Act. Secretary Bentsen has stated his personal commitment to assuring that the Department of the Treasury both obtains unqualified opinions on all its financial statements as quickly as possible as well as setting the standard for financial management excellence. To this end, the Department and its bureaus are working hard to effect the improvements identified through the audits of the statements and the corresponding control systems. The Department has a qualified and committed Chief Financial Officer, Mr. George Muñoz, and each bureau has established its own Chief Financial Officer. These CFOs are focusing their attention on improving the financial management throughout the Treasury Department. Further, the Department has the distinction of having the first federal entity-- the Bureau of Engraving and Printing-- submit FY 1993 audited financial statements to OMB on January 31, 1994.

The impetus for improved financial management-- and greater attention to financial auditing-- both within the Department and government wide-- has clearly been the CFO Act. The Act required annual audited financial statements of certain entities within the Department, some of the more significant including the Internal Revenue Service, the U.S. Customs Service, the U.S. Mint, the Bureau of Engraving and Printing, to name just a few. The requirement to prepare and subject the statements to audit has significantly improved-- and in fact in some cases introduced-- financial accounting, reporting and management practices and procedures. Whether it was the discipline needed to prepare audited statements or the improvements identified by the audits themselves, there is no denying that financial management has improved within the Department. As evidenced by the audit reports on the IRS and Customs, while much more needs to be done, progress is being made.

The CFO Act has also focused greater attention on ensuring that the Department's financial systems are better integrated. Problems with financial systems integration have been identified by the Department as part of its Federal Managers Financial Integrity Act reports since December 1989, which predates the CFO Act. While progress was being made since first reporting this problem, the CFO Act has more sharply focused on the need for better integrated systems, and the momentum for achieving this correspondingly has increased over the past year.

Clearly, the Act has also impacted the way the Office of Inspector General (OIG) approaches financial statement audits. Having participated in the implementation of the Act and having worked with the General Accounting Office on the most recent audits of IRS and Customs, we have gained a better appreciation for the impact and magnitude of these audits. We recognize that there needs to be a balance between the financial statement audits and the program audits we have emphasized in the past. We better appreciate how CFO audits can pull together in one report information from separate audits in order to evaluate the financial management of an agency. We are also more sensitive to the linkages between financial statements and program performance measures.

The CFO Act offers our Department far more than the opportunity to achieve audited financial statements with unqualified opinions. Our office is working with Treasury officials to ensure that the information we provide in these audits is useful to management decision-makers. By effectively linking audited financial statements to effective management, I am confident that we can improve Federal financial management. I also know that the OIG can proactively assist management in improving its financial systems and, at the same time, perform the audits required by the Act.

I would like to take a moment and acknowledge the contributions made by the General Accounting Office. GAO's work in the Department has resulted in identifying many significant areas of improvement in the two largest Treasury bureaus-- the IRS and Customs. Further, as an auditor, I appreciate the magnitude and complexity of these two audits and I congratulate GAO for the job it did. We have benefitted by having the opportunity to work with GAO on its most recent audits and are better positioned now to perform the Customs audit.

In your June 15, 1994 letter inviting me to testify, you asked that I address the following areas of inquiry:

- What has been the Department's progress in implementing CFO Act requirements?

- What problems is the Department encountering in integrating the CFO Act requirements with requirements based on other laws applicable to financial management?

- What plans and preparations are in place for migrating the IRS and Customs CFO audits from the General Accounting Office to the Office of Inspector General?

- What strategy is there for committing sufficient Office of Inspector General staff resources to the Customs and IRS CFO audits in light of other audit priorities?

WHAT PROGRESS HAS BEEN MADE IN IMPLEMENTING THE CFO ACT?

The Department of the Treasury has made steady and effective progress in implementing the CFO Act. The Act required that trust and revolving funds and all commercial like activities have financial statements prepared and that they be subject to audit. In addition, the Act specifically identified the Internal Revenue Service and the Customs Service as pilot "agencies", for which "agency" wide financial statements be prepared and audited.

As a result, the Department initially identified nine entities subject to the Act. They were as follows:

<u>Beginning with FY 1991 statements</u>
Bureau of Engraving and Printing
The Department's Gifts and Bequest Fund
Office of the Comptroller of the Currency
Office of Thrift Supervision
U.S. Mint
Ester Cattell Schmidt Trust Fund
The Working Capital Fund

<u>Beginning with FY 1992 statements</u>
Internal Revenue Service
U.S. Customs Service

Subsequently, the Financial Management Service was added for the year ending September 30, 1992, and the Department's Asset Forfeiture Fund-- which began operations in FY 1993-- was added for the year ending September 30, 1993.

In FY 1991, all but one audit required by the Act were accomplished. As permitted by the CFO Act, OMB granted the Mint a first year waiver from preparing its FY 1991 financial statements. The Mint requested a waiver because it desired to implement ongoing accounting improvements designed to produce auditable financial statements. For FY 1992, three additional Treasury bureaus' financial statements were audited-- IRS, Customs, and the Financial Management Service (FMS). In addition, the Mint's financial statements were audited. The Department's Asset Forfeiture Fund was audited beginning with FY 1993.

Therefore, beginning with FY 1992 and continuing with FY 1993, the Department has met its obligation to produce audited financial statements for the entities specified by the Act. Approximately $1.2 trillion-- or 80 percent of Treasury's total collections and expenditures-- is subject to audit. Additionally, more than $11.5 billion-- or 90 percent-- of the Department's total operating budget was audited for FY 1993.

Significant financial statement audit activity has been accomplished in the Department. The two largest bureaus-- IRS and Customs-- have had their FY 1992 and FY 1993 financial statements audited by GAO with assistance in FY 1993 by the Office of Inspector General and the IRS's Office of the Chief Inspector. The other nine CFO audits have been accomplished by CPA firms contracted for either by the OIG or the audited entity, but in all cases with oversight provided for by the OIG.

In addition to what has already been accomplished, the Department has set a goal of preparing Department-wide financial statements for fiscal year 1996. In order to accomplish this goal, we are working with the Department to have audited FY 1995 financial statements for the Bureau of the Public Debt and the Bureau of Alcohol, Tobacco and Firearms.

As a result of the financial statement audits, the need for significant improvement in some of the largest Treasury financial operations have been identified. The CFO audits performed by GAO for FYs 1992 and 1993 of the IRS and Customs are perhaps the best illustrations of both the problems identified and the progress being made to address them. In summary, GAO was unable to express opinions on the reliability of either IRS' or Customs' financial statements due to the lack of reliable supporting information. In addition, GAO observed that internal controls were not properly designed and implemented: to effectively safeguard assets; to provide a reasonable basis for determining material compliance with laws and regulations; or to assure there were no material misstatements in the Principle Financial Statements. However, as a result of its FY 1993 audits, GAO reported that both IRS and Customs took important steps to address the problems GAO had identified. Similarly, our FY 1992 audit of the Mint identified problems with the Mint's financial operations that resulted in a disclaimer of opinion due to material weaknesses identified in the Mint's internal control structure, specifically, its fund structure, financial system, and financial statement preparation processes. The most recent audit of the Mint, however, showed that substantial progress was being made to address and correct these matters.

Treasury is making progress toward achieving Secretary Bentsen's goal of meeting the requirements of the Act and achieving unqualified opinions. Implementing the necessary improvements won't be easy; however, the commitment to improve is apparent.

WHAT PROBLEMS HAVE BEEN ENCOUNTERED INTEGRATING CFO ACT REQUIREMENTS WITH OTHER FINANCIAL MANAGEMENT REQUIREMENTS?

The CFO Act has at its core assuring that accurate and reliable financial information regarding government operations and financial condition is available to Congress, Federal managers and the public.

The CFO Act has far reaching implications that are related to other financial management laws and or requirements. The Department is working to integrate the various financial management requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Government Performance and Results Act (GPRA) of 1993, OMB Circular A-127 "Financial Management Systems", and other related financial management requirements into a cohesive program.

The Department has routinely considered the results of the financial statement audits conducted as part of the CFO Act when evaluating its internal controls and financial management systems, as required by FMFIA. For example, neither Customs nor IRS could report reasonable assurance that their financial systems met the objectives of Section 4 of FMFIA, and this was reported as part of the FY 1993 FMFIA report. However, a real problem exists with the timing of the CFO and FMFIA reports. For FY 1993, FMFIA reports were issued by December 31, 1993, whereas the CFO audit reports were issued by June 30, 1994. The difference in the reporting dates causes a lack of true integration between the two programs-- the results of a CFO audit will not be reported out in time for consideration in that year's FMFIA report and would likely have to be considered in the subsequent year's FMFIA report. Further, the results of the CFO audit, performed by independent auditors, may identify issues not previously identified through the self-assessments required by the FMFIA. This could call into question the accuracy and reliability of the FMFIA process. This has, in fact, occurred within the Department, where both the GAO and OIG have identified through CFO work items not previously reported through the FMFIA.

The financial management community, OMB and the OIGs are looking for ways to better integrate the reporting requirements of the CFO and FMFIA. We have discussed this issue with the CFO and we intend to jointly approach OMB asking that the Department be identified as a prototype for exploring opportunities to better integrate the CFO and FMFIA programs.

Another program that is closely linked to the CFO Act is the Government Performance and Results Act, commonly referred to as GPRA. GPRA requires agencies to develop meaningful performance measures, which will provide a basis for comparing actual program results with established performance goals. However, in order to develop useful performance measures as envisioned by GPRA, accurate and reliable financial information is essential. This is because many of the measures that will be developed will likely have as input information generated from financial statements or systems. Thus, the successful implementation of GPRA is dependent upon the reliability of the financial systems generating this information-- a vital aspect of the CFO Act. The Department is taking an active role in implementing the provisions of GPRA through improved financial operations and having a number of programs act as pilots under OMB's GPRA prototype program.

The Department is also actively pursuing greater financial systems integration, in recognition of the fundamental role that properly designed and well integrated systems have to effective financial management. In FY 1992, the Department established the Financial Management Systems Advisory Committee (FMSAC) to develop recommendations for standardizing financial management subsystems Department-wide. FMSAC has been responsible for a number of actions that have moved the Department toward an integrated financial management system. These include working with the bureaus to implement off-the-shelf core financial systems and establishing FMSAC project teams to develop integrated sub-systems. In response to a request by both the Department and OMB, we have recently started an evaluation to assess the adequacy of the Department's financial systems integration efforts and whether its status as an OMB designated high risk area should be changed.

The true measure of the Department's success in implementing the CFO and all the other financial related Acts and programs will occur when financial information is used as a matter of course by program managers to manage their programs and influence their decision making. This has not yet happened, primarily because the information is not viewed as being reliable or timely. As the Department achieves the financial management improvements necessitated by CFO, FMFIA, GPRA, and OMB Circular A-127, we would expect to see greater evidence of integrating financial information into the management of Treasury programs.

WHAT IS BEING DONE TO MIGRATE THE CUSTOMS AND IRS AUDITS FROM GAO TO THE OIG?

The CFOs Act included IRS and Customs as "pilots" for CFO financial statement generation and audit. OMB Bulletin 93-18 extended the pilot program beyond FY 1992. The CFO Act assigned the responsibility to perform the audits at both IRS and Customs to the OIG. GAO exercised its prerogative, and conducted the FY 1992 and FY 1993 audits of the statements prepared by both IRS and Customs. GAO performed the audits for FY 1992. For the FY 1993 audits, our Office of Audit assigned 37 staff to assist GAO. In addition, the IRS's Office of the Chief Inspector provided approximately the same level of support. For the FY 1994 statements, the OIG will perform the audit of Customs and GAO will, in conjunction with IRS's Office of the Chief Inspector, perform the audit of IRS.

GAO has laid the groundwork and established the framework for the audit of the Customs Service. GAO developed the audit methodologies and identified the issues during its prior two audits that we will carry forward in our FY 1994 and future year audits. Further, we have clearly benefitted by having the opportunity to work side by side with experienced GAO auditors during their FY 1993 audits. We have identified areas where we need to improve in order to best perform the work required under the Act.

For example, we are planning to contract for ADP and statistical sampling expertise until we can fully develop these essential skills in house. Further, we expect to assign a senior level official who will have a singular focus on the Customs CFO audit. In the past, the audit was assigned to a Regional Inspector General for Audit, who in addition to the Customs CFO audit, had other audit responsibilities.

For the FY 1994 Customs audit, we have redeployed auditors already on board, supplemented by new hires. The audit carries a personnel complement of approximately 40, with most lead positions being filled by in-house Certified Public Accountants who had worked with GAO on the FY 1993 audit.

Admittedly, GAO's decision to continue the CFO audit of IRS has had a positive effect on the OIG by permitting us to direct our attention to the successful completion of the Customs CFO audit, without the added responsibility of the IRS audit. At that point in time when GAO decides not to perform the audit of IRS, the OIG will work with GAO to assure an orderly and effective transition of the IRS audit to the OIG.

We will continue to consult with GAO throughout the course of the FY 1994 audit of Customs to ensure that the audit approaches at both Customs and IRS are appropriately consistent. GAO has agreed to review our plans and other pertinent documentation and provide us their comments and suggestions. Finally, although we do not expect the Customs audit to be easy and without its challenges, we are confident in our ability to perform it successfully.

WHAT IS THE OIG'S STRATEGY FOR COMMITTING SUFFICIENT RESOURCES TO THE CFO AUDITS IN LIGHT OF OTHER PRIORITY AUDITS?

The OIG is committed to successfully performing its CFO related responsibilities. We are estimating that it will take us nearly 40 full time equivalents to perform the FY 1994 CFO audit at Customs and plan to perform the audit in-house, contracting out for only the audit of systems controls and needed statistical sampling expertise. We plan to continue to employ contractors for accomplishing the audits of the Office of the Comptroller of the Currency, the Office of Thrift Supervision, FMS, the Mint, the Bureau of Engraving and Printing, and other CFOs Act-mandated audits. Because we will not be performing the FY 1994 CFO audit for IRS, we expect to expend only a limited amount of resources to liaison with GAO and maintain some level of familiarity with the IRS audit. This will expedite the transition of audit responsibility to the OIG when GAO decides to stop performing the audit.

Our FY 1995 CFO budget initiative asks for 21 additional Full-Time-Equivalents, to replace those who were redirected from other audits to work on the Customs CFO audit. While we view CFO Act as extremely important, the reality is that Treasury is a multi-faceted agency, with many other non-financial programs that are significant, needing programmatic review.

For example, security over Treasury operations, including those at the Mint and Bureau of Engraving and Printing, as well as sensitive law enforcement programs need to be evaluated. The Department has significant responsibility for the safety and soundness of the banking and thrift industries; accordingly, the effectiveness of the Office of the Comptroller of the Currency's and the Office of Thrift Supervison's financial institution supervisory programs needs to be assessed. Customs programs for trade facilitation, and import and export controls are vital and need periodic review. The Bureau of Alcohol, Tobacco and Firearms is responsible for controlling the flow of weapons and explosives; these programs central to the public safety would not be evaluated as part of the CFO Act and, therefore, need periodic review. Quite frankly, without the requested additional personnel, the OIG's overall effectiveness to evaluate the non-financial programs of the Department and meet its other mandates will likely be diminished.

In summary, Mr. Chairman, I believe that the Department of the Treasury has made significant progress in effectively implementing the CFO Act. However, more remains to be done. I also want to emphasize that I support the CFO Act and have a sincere commitment to effectively discharge the responsibilities assigned this Office by the Act.

I hope I have addressed the issues that are of concern to the Committee and will be pleased to answer any questions you and other members of the Committee may have.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
July 13, 1994

STATEMENT BY TREASURY SECRETARY LLOYD BENTSEN

Today we are announcing the Treasury Department's plans to change the design of U.S. currency to enhance its security in this time of rapid technological change.

Last year I charged the Advanced Counterfeit Deterrence Steering Committee, which oversees our deterrence efforts, with the task of assessing and developing features for a more secure currency. The group, chaired by Treasury Under Secretary Frank Newman, has responded quickly to its mandate, and will discuss the program in greater detail at today's hearing before the House Banking Committee.

Our plan, developed in cooperation with the Federal Reserve, is a pre-emptive step to protect U.S. currency from high-tech counterfeiting. This initiative was not undertaken as a result of a crisis or because of any meaningful threat from any particular source. The actual volume of counterfeiting of U.S. currency has been only a very small fraction of the total in circulation. The Secret Service has an outstanding record of enforcement. Two security features introduced in 1991 -- a polyester security thread embedded in the paper and microprinted wording -- have been very effective. But we would risk eventual diminishment of confidence in the integrity of our currency if we did not change it to meet the challenges of a new generation of technology. With diligence, we can ensure the continued security of our currency.

It is vitally important that people around the world understand that all existing U.S. currency will continue to be valid. The re-designed currency will be introduced over a period of years, and no U.S. currency will be demonetized, devalued or recalled.

The testimony today will shed light on the features to be tested and developed in the coming months, and on the process we will follow to put new bills into circulation. The steering committee has examined the emerging technologies accessible to counterfeiters and existing technologies that could be used to make a more secure, more easily verified bill. Its ultimate design will be sufficiently elastic to allow for revisions as new technologies emerge, but will maintain the traditional look of U.S. currency.

(MORE)

LB-947

No single feature alone is sufficient and no single currency design can be absolutely counterfeit-proof over time. But with a willingness to re-examine and update our designs, we can stay ahead of the technology curve.

Chairman Gonzalez and other members of the House Banking Committee on both sides of the aisle share our interest in this effort and have encouraged the development of enhanced security features. I would like to thank Chairman Greenspan, Governor Kelley and the Federal Reserve for their work on the Steering Committee. We are happy to take this opportunity to update the Banking Committee on our progress and to announce this important plan.

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FOR IMMEDIATE RELEASE
July 13, 1994

Contact: Rebecca Lowenthal
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TREASURY TO REVIEW NEW FEATURES FOR U.S. CURRENCY DESIGN

Treasury Secretary Lloyd Bentsen announced Wednesday the Treasury Department's plans for modernizing U.S. currency.

A series of anti-counterfeit security features under consideration was presented to the House Banking Committee by members of the Advanced Counterfeit Deterrence Steering Committee, which oversees deterrence efforts. Secretary Bentsen re-convened the steering committee last year in response to the growing threat that advanced computer-based reprographic technologies pose to the integrity of U.S. currency.

The features authorized for testing and development include changes in the paper, ink and design of currency notes, including an enlarged off-center portrait on each denomination; a matching watermark; an enhanced security thread in a different location on each denomination; expanded use of microprinting in the design and on reflective material embedded in the paper, or planchettes; and interactive, or moire, patterns that turn into wavy, irregular patterns when copied.

Changes in the size, basic colors, portrait subjects or historic vignettes are not under consideration.

Since the technology available for counterfeiting is evolving, the final design will allow Treasury to include new deterrence features and discontinue those which lose their effectiveness as technology improves. The new security features will allow merchants and the public to more readily identify genuine notes. Covert features, which can be identified by machines, will enhance the banking system's ability to detect counterfeits.

<u>The Treasury will not recall, devalue or demonetize any currency</u>. As with past changes, old notes will remain fully valued legal tender and will be retired only when they are returned to the Federal Reserve. A final design is expected to be approved in 1995, with issuance of newly-designed $100 bills about a year later. The issuance of new smaller denominations would follow.

More than $350 billion in U.S. currency notes is in circulation, over half outside the United States.

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LB-944

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STATEMENT OF FRANK N. NEWMAN
UNDER SECRETARY OF THE TREASURY
DOMESTIC FINANCE
BEFORE THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

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U.S. HOUSE OF REPRESENTATIVES

Good Morning Mr. Chairman and members of the Committee.

I am pleased to be here today to discuss the Treasury's plan for promoting the security of U.S. currency into the future. With me from Treasury are Mary Ellen Withrow, Treasurer of the United States, Peter H. Daly, Director of the Bureau of Engraving and Printing, and Guy Caputo, Deputy Director of the U.S. Secret Service, in addition to Governor Edward Kelley of the Federal Reserve. At Secretary Bentsen's direction, I serve as chairman of the interagency Advanced Counterfeit Deterrence Steering Committee, composed of the Treasury bureaus and agencies represented here today and the Federal Reserve System. The committee has been operating since 1982 to assure effective cooperation among the parts of the government responsible for stewardship of our currency system. Last year, Secretary Bentsen charged our committee with prompt analysis of trends and alternatives for responsible action by the Treasury Department.

This morning, Secretary Bentsen announced that the Treasury Department is undertaking a comprehensive program to modernize the design of U.S. currency. We are here today to outline the rationale, objectives, and approach to that program, and to respond to your questions about it.

First, Mr. Chairman, I would like to express our appreciation for your leadership on this issue in recent years. Your support has been most valuable as we have developed programs to protect our currency from future counterfeiting threats.

As you know, the dollar is a de-facto world currency. About 2/3 of the $350 billion of U.S. dollars in general circulation is being used outside of the United States. This reaps economic benefits to the United States because the interest-free currency notes issued by the Federal Reserve support a corresponding level of interest-earning assets. Most of the Federal Reserve's annual interest income is then paid to the Treasury. As Governor Kelley will explain in more detail, this value has been running in excess of $15 billion a year for the U.S. Treasury.

Because of its enduring value and world-wide acceptability, the dollar will always be a target of counterfeiters. At this time, however, counterfeiting does not pose a significant threat to our economic well-being or our monetary system. The amount of counterfeit currency passed in the

United States each year is less than one one-hundredth of one percent of currency in circulation, and the diligent efforts of the Secret Service have meant that most counterfeit bills are never even passed to the public. Nevertheless, as advanced computer based reprographic technologies continue to evolve, the deterrent features of our current currency will become increasingly less effective. As a result, we must take steps now in order to address a threat that will increase as technology improves. That is what our program is all about - attacking the future technological threat before it fully evolves.

Secretary Bentsen has authorized the final development and testing of a set of new counterfeit deterrent features that will significantly increase our currency's defense against reprographic technologies. These features have been taken from an inventory studied by the National Academy of Science and augmented with research by the Bureau of Engraving and Printing. Furthermore, the Bureau studied the currencies of other countries not only for an assessment of their security features but also for insights into their production and circulation requirements. These insights were helpful for our development program. The special large scale production and circulation characteristics of U.S. currency made the implementation of certain of those features impractical; however, our new design incorporates a number of the most advanced and effective technologies used anywhere in the world.

The new features authorized for testing and development include changes in the paper, ink, and design of currency notes. Major among them are an enlarged off-center portrait on each denomination, a matching watermark, an enhanced security thread, and microprinting in the design and on planchettes embedded in the paper. There are also interactive patterns which turn into irregular, wavy moiré patterns when copied. In addition, a variety of covert but machine-readable features will be added for banking system use. We expect a production design to be finalized in 1995, and we should be ready to issue new design $100 bills about a year later. Pete Daly and Tom Ferguson from the Bureau of Engraving and Printing will present the features and plan in more detail.

We would like to call your attention to several points concerning the security aspects of this program:

1. The program is an orderly, pre-emptive plan to protect U.S. currency from counterfeiting which could be facilitated by advancing technology.

2. The new design features work in synergy, as a system. No single feature alone can provide enough counterfeit deterrence to withstand the technological threats we expect will develop in the future.

3. Because the technology available for counterfeiting is evolving, no longer will U.S. currency be as static in design as it has been. Therefore, elasticity must be built in now to accommodate the inclusion of new deterrents and the discontinuance of those that lose their effectiveness as the paths of technology develop.

4. The combination of overt features will augment the ability of merchants and the public to more readily identify genuine notes, thereby strengthening our front-line defense against counterfeiting. At the same time, the covert features will aid Federal Reserve processing and add another level of security.

5. The plan is cost effective and not disruptive to existing cash processing system or world use of the dollar.

6. The plan is <u>not</u> a response to a crisis;

   it is <u>not</u> a response to any current counterfeiting case.

   It <u>is</u> a responsible, forward-looking, preventive program.

It is clearly in the best economic and political interest of the United States to have a freely circulating currency relied upon everywhere as a symbol of strength and a trustworthy medium of value. However, it also makes our currency a prime candidate for illicit use and a favorite target of counterfeiters. Despite this, world confidence in U.S. currency remains extremely high, and, as undesirable and serious as counterfeiting is, it does not now pose a serious problem for our currency system. However, there are no absolutely counterfeit-proof documents, and there will undoubtedly be continuing attempts to counterfeit U.S. dollars with the use of modern technology. We need to strive to stay ahead of that curve with high security currency features. The proposed features necessitate some design changes, but the traditional look of U.S. currency will be largely maintained. <u>The size, national symbols, and colors will be the same as they are now.</u>

Before concluding, I should touch on some approaches that were explicitly and unanimously rejected by our committee and by Secretary Bentsen. There have been suggestions that perhaps the U.S. should demonetize and recall its existing currency and issue a new one. The objective would be to flush out hordes of cash, and disrupt various money-laundering methods associated with tax evasion and drug trade. Other suggestions have been made for separate domestic and international versions of U.S. currency.

Our committee considered these ideas and concluded that they are not viable options, and would be overreactions to the situation as we now know it. <u>The United States has never recalled or demonetized any of its currency and will not do so now</u>. Such an act would touch on highly sensitive international issues and work against the larger economic interests of the United States by disrupting the beneficial world reliance on the dollar.

We do recognize that, since existing currency will continue to be valid, we need to continue counterfeit detection and enforcement programs with them in mind. The Secret Service has an outstanding record in this regard, and Mr. Caputo will explain more about that ongoing program. In addition, the Federal Reserve will continue to destroy older bills that pass through the banking system, so that, over time, the vast majority of bills in use will be of the new design.

Treasury believes that the necessary strengthening of the security of our currency can be achieved in an orderly way over the next several years with the introduction of a new generation of currency. This will keep us ahead of the technological curve, add important assurance for the integrity of our currency domestically, and help assure that the dollar will continue as a currency of choice around the world.

My colleagues and I will be happy to respond to any questions members of the committee may have.

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STATEMENT OF MARY ELLEN WITHROW
TREASURER OF THE UNITED STATES
BEFORE THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

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U.S. HOUSE OF REPRESENTATIVES

Good morning, Mr. Chairman and members of the Committee. Thank you for this opportunity to testify before your committee on the redesign of U.S. currency.

We are here because of the importance of protecting the integrity of U. S. currency, and because the changes to the currency which we are considering will further the continuing efforts to maintain that integrity.

The U. S. dollar has come to symbolize the strength and stability of our country and the integrity of our economy. It actually serves as a world currency, and is vital in that role. To maintain this status, U.S. currency must be protected against the threat posed by modern technology. But if the changes we are recommending are to be effective, they must also be universally recognized and understood by the public. Throughout the world, the new style notes must be as readily recognized and accepted as the present design.

As you know, Mr. Chairman, some enhancements already have been successfully introduced into U.S. currency. These include the security thread and microprinting seen in the Series 1990 notes. However, compared to these changes, the enhancements in the new currency will be dramatic -- the first change in the basic appearance of U.S. currency in 65 years. This makes the issuance of a new design of U. S. currency especially momentous and the mission of public education critical.

The public must be reassured that previous versions of our currency are still valid and will not be recalled: <u>U. S. currency has never been demonetized and will not be demonetized in this case.</u> This message needs to be underscored well in advance of the release of the first notes with the new design. In this way we can assure confidence and continuity in the handling of U.S. currency and avert public confusion as we change to the new design. To maximize public acceptance and to minimize any confusion, the new currency will maintain many traditional American elements. The new currency will maintain its current size and colors, with portraits of the same historical figures on the faces and the same buildings or monuments on the backs.

Putting forth this information to the public will require a world-wide education campaign. The effort will be headed by the Treasury, with representation from the Bureau of Engraving and Printing and the Secret Service, as well as the Federal Reserve Board.

The scope of this effort will be even broader than the campaign to introduce the 1990 series. Effective methods of explaining the new features must be identified. Multi-media materials must be prepared, translated into the major languages of the world and sent out for distribution worldwide. Bank tellers, cash handlers, enforcement and forensic agents must be trained to distinguish the new currency, and to feel confident in its recognition. By the time the new design is issued, the public must be well aware of what it will be seeing and know how to use the new features.

Moreover, this is not likely to be the last change in our currency design. In the future, more frequent changes will be required, to meet the threat of advances in technology, and each change will necessitate further public education. Therefore, this campaign will set the stage and provide a model of operation for future efforts.

Mr. Chairman, we are confident in our decisions for the new currency design. We are equally confident in the public information campaign. Through the campaign, we will be able to introduce the new design to full advantage and to assure the world that our currency, whether the old design or the new, is secure and sound. I am pleased and honored to act as Treasury spokesperson for this campaign.

Thank you for this opportunity and I will be happy to answer any questions you or other members of the committee may have.

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STATEMENT OF PETER H. DALY
DIRECTOR OF THE BUREAU OF ENGRAVING AND PRINTING
BEFORE THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

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U.S. HOUSE OF REPRESENTATIVES

Good morning Mr. Chairman and members of the Committee. Thank you for the opportunity to appear before you today to discuss the technical aspects of U.S. currency redesign. With me is the Bureau's Assistant Director for Research and Development Thomas A. Ferguson.

Research into advanced counterfeit deterrent features for U.S. currency has been underway at the Bureau of Engraving and Printing over the last decade. As you know, two new such features -- a denominated security thread, and microprinting around the portrait -- were added in the 1990 series currency primarily to defend against the high fidelity color copiers entering the world market. These features cannot be reproduced on those machines, and appear quite effective in deterring conventional counterfeiting as well. Most counterfeits continue to be of series notes before 1990.

Immediately after implementing the 1990 series, BEP began active research into next generation counterfeit deterrence. We contracted with the National Academy of Sciences for an updating of its original 1987 report on anti-counterfeiting technologies suitable for use on U.S. currency, and conducted a comprehensive industry survey for emerging or innovative ideas for enhancing the security of our currency from counterfeiting. These efforts resulted in an inventory of 14 features which could be used immediately, and a number of others which have potential but require further development.

With the strong interest and support of Secretary Bentsen and Under Secretary Newman, as well as the public statements that you have made, Mr. Chairman, we began development of a new design for U.S. currency which could accommodate the production-ready features while providing sufficient elasticity of design so as to accommodate new features which might be required later to defend against even newer technologies.

As you know, the design of U.S. currency has been virtually the same for over 60 years, with only minor changes. However, the combination of rapidly advancing technology and continued strong world demand for the dollar makes most unlikely a similarly long period of constant design. Rather, we have entered an era of regular change so that we may always stay ahead of the curve and be as pre-emptive as possible in deterring new counterfeiting threats.

In creating this new design concept, we have endeavored to retain the traditional look of the dollar. Although the visual changes to this new series U.S. currency will be more dramatic than seen in many years, we believe it essential to keep as much as possible of the traditional design so as to minimize any confusion which may develop during the initial phases of the changeover. Accordingly, we have only made changes that allow for the inclusion of specific counterfeit deterrent features. Therefore, the size, portrait subjects, and national symbols used on the new series will be the same as those used on the current one. Furthermore, because the NAS determined in their 1987 and 1993 studies that color was an ineffective deterrent against today's high quality color copiers and computer scanners, the color of the new series will also remain the same. Also, the same classical banknote style engraving technique will be used on the portraits, borders, and numbers. What will change, however, is the configuration of these elements on the note so as to allow for the inclusion of new deterrent features or to strengthen the ones already in use.

At this point the final costs of the enhancements cannot be defined, as contracts have not been made and prices are dependent on the final package of features and volumes. However, we estimate that these enhancements will add approximately 20-25% to the cost of currency or approximately 1 cent per note. This would represent an increase of between $7.5 million and $10 million for new $100 bills in the first year of production. The BEP operates on a revolving fund and the cost of currency, including these enhancements, is paid for directly by earnings of the Federal Reserve System. Therefore, no appropriations will be required to support this effort. Also, as Under Secretary Newman and Governor Kelley note, the value to the Treasury of wide acceptance of our currency exceeds these costs by many multiples.

The BEP and the Federal Reserve System are prepared for the introduction of this new currency. Adequate production capacity exists to meet both the current demands and the conversion to the new series.

Mr. Ferguson will detail the design elements, and explain the technical reasons for their value as deterrents against various methods of counterfeiting.

Thank you for your attention, Mr. Chairman. I will be pleased to answer any questions you or members of the committee may have.

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DEPUTY DIRECTOR
UNITED STATES SECRET SERVICE
BEFORE THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
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UNITED STATES SECRET SERVICE
BEFORE THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

Good morning Mr. Chairman and members of the Committee.

I appreciate the opportunity to appear before this Committee and testify on a topic which I believe to be of utmost importance. Today's announcement of the new currency design represents a significant step forward, and the Secret Service is pleased to have played an active role in the development of the program. Commencing in 1865, the Secret Service has played an integral part in the investigation and suppression of counterfeit United States currency. While certain of the techniques used in that investigative mission have changed, the commitment on the part of the agency to maintain the integrity of our currency has remained constant. Just as our methodology has been periodically revised, so have the instrumentalities and techniques utilized by the criminal element involved in the counterfeiting of United States currency. Access to a variety of technologically advanced equipment, has resulted in a significant increase in the general quality of counterfeit currency.

As the Committee is aware, the counterfeiting of our currency is not restricted by our territorial boundaries. To the contrary, we have seen a significant increase in counterfeit activity abroad.

As an example, in fiscal year 1993, in excess of $120 million of counterfeit U.S. currency was seized abroad. In contrast, domestic seizures and counterfeit notes passed on the public accounted for $44 million. The increased extra-territorial activity is attributed to factors which include, but are not limited to, worldwide acceptance of United States currency; the processes by which U.S. currency may be replicated; technological advancements in the field of reprographics; the ability to easily transit most countries; and the inherent problems associated with multi-jurisdictional enforcement.

While overseas counterfeiting activity continues to receive significant media attention, we must not lose sight of the fact that domestic counterfeiting violations also must be addressed in an aggressive manner. In fiscal year 1993, the Secret Service suppressed 127 counterfeit plant operations domestically, while arresting 1,899 individuals for counterfeit related violations. During that same period, the conviction rate exceeded 95%. Based on data for the first six months of fiscal 1994, suppression of domestic counterfeit plant operations and arrests are projected to increase once again. These enforcement statistics attest to both the current level of criminal activity and the need to maximize investigative efforts in that same arena.

The results of enforcement initiatives may be more easily measured than deterrence efforts. The Secret Service utilizes a variety of methods designed to minimize an individual's or group's potential for success in a counterfeit related scenario. As an example, we have long maintained liaison activities with commercial vendors who provide printing supplies and/or equipment to the public. There is ongoing coordination among and between a variety of domestic, foreign, and international law enforcement entities, which is designed to ensure, and therefore enhance lines of communication. The emphasis which is placed on liaison has proven to be an invaluable tool in the investigation of counterfeiting. Individuals and groups involved in counterfeiting activities, both domestically and abroad, continue to evidence multi-jurisdictional and/or international activity. In order to aggressively investigate those involved, it is necessary to effectively mobilize available resources. Consistent with that initiative, the Secret Service continues as a proven communication catalyst for authorities involved in the suppression of counterfeiting.

The Secret Service's mission, as it relates to the counterfeiting of United States currency, is straightforward. As a Bureau of the Department of the Treasury, our deterrence program is directly linked to efforts on the part of the Treasury to ensure the integrity of our financial system. The currency redesign program specifics presented here today provide significant overt and covert deterrence features for incorporation into our currency. The success of our investigations is directly correlated to our ability to identify counterfeit activity promptly. The overt features will allow for easy recognition by the public, which will in turn help facilitate that process. The covert features will augment machine readability and facilitate Federal Reserve currency processing.

I would like to emphasize that from an enforcement point of view, the integrity of United States currency is dependent upon a two pronged approach; i.e., enforcement and deterrence. The efforts are not mutually exclusive, rather they are co-dependent. While enforcement efforts are routinely reactive, security enhancements are deterrents, which when incorporated into currency design provide a proactive approach to counterfeit suppression.

The efforts on the part of the Treasury Department, and in particular the Advanced Counterfeit Deterrence Steering Committee and the New Currency Design Task Force, have been significant. The results of their involvement and commitment are in evidence today. There is now an increased awareness of future technological advancements which will necessitate a continuing program of currency redesign. Be assured that the Secret Service remains committed to the mission and takes pride in its continuing ability to make a significant impact on the problem as well as the solution.

Again, thank you for this opportunity to appear before the Committee, and to emphasize the strong support of the Secret Service for the new currency program. I would be happy to answer any questions you might have.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

THE HISTORY OF PAPER MONEY SINCE THE 1860s

1861 The United States Treasury issued paper money for the first time in the form of non-interest bearing Treasury Notes called Demand Notes.

1862 Demand Notes were replaced by United States Notes. Commonly called "greenbacks," they were last issued in 1971. The Secretary of the Treasury was empowered by Congress to have notes engraved and printed, which was done by private banknote companies.

1863 The design of U.S. currency incorporated a Treasury seal, the fine line engraving necessary for the difficult-to-counterfeit intaglio printing, intricate geometric lathe word patterns, and distinctive linen paper with embedded red and blue fibers.

1865 Gold certificates were issued by the Treasury against gold coin and bullion deposits and were circulated until 1933.

1865 The Treasury established the United States Secret Service to control counterfeits, at that time amounting to one-third of circulated currency.

1866 National Bank Notes, backed by U.S. government securities, became predominant. By this time, 75 percent of bank deposits were held by nationally-chartered banks. As State Bank Notes were replaced, the value of currency stabilized for a time.

1877 The Department of the Treasury's Bureau of Engraving and Printing (BEP) started printing all U.S. currency, although other steps were done outside.

1878 The Treasury was authorized to issue Silver Certificates in exchange for silver dollars. The last issue was in the Series of 1957.

1910 BEP assumed all currency production functions, including engraving, printing, and processing.

1913 After 1893 and 1907 financial panics, the Federal Reserve Act of 1913 was passed. It created the Federal Reserve System as the nation's central bank to regulate the flow of money and credit for economic stability and growth. The system was authorized to issue Federal Reserve Notes, now the only U.S. currency produced and 99 percent of all currency in circulation.

1929 Currency was reduced in size by 25 percent and standardized with uniform portraits on the faces and emblems and monuments on the backs.

1957 Paper currency was first issued with "In God We Trust" as required by Congress in 1955. The inscription appears on all currency Series 1963 and beyond.

1990 A security thread and microprinting were introduced, first in $50 and $100 notes, to deter counterfeiting by advanced copiers and printers.

DEFINITIONS OF FEATURES

Distinctive and Machine-Detectable Fibers. Special fibers with specific properties are often added to security papers for forensic purposes. Modern security fibers can be designed to incorporate many types of machine-detectable characteristics.

Iridescent Planchettes. Traditional planchettes are colored pieces of tissue paper a few millimeters in diameter incorporated directly into the paper, either in rows or randomly distributed. In newer planchettes, such features as microprinting and iridescence are used to enhance their security.

Security Thread. A security thread is a thin thread or ribbon running through a banknote substrate. It is a versatile feature, with many types currently available, including microprinted, metallic, magnetic, windowed and imbedded. The thread currently in use in U.S. currency is an embedded, microprinted thread which can be seen when held to a light. This characteristic makes it impossible to copy with a color copier, which uses reflected light to generate an image.

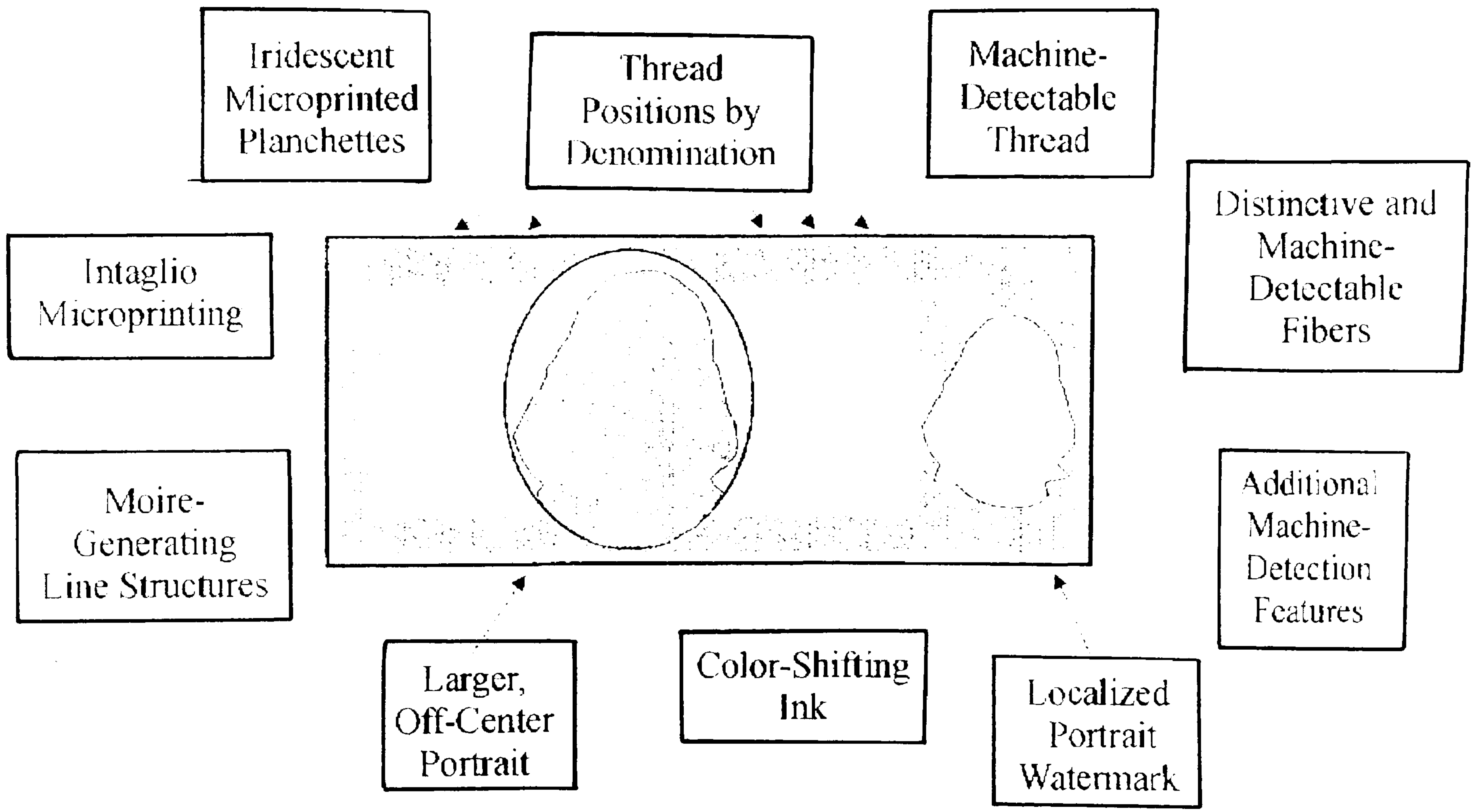
Watermark. A watermark is an image formed by purposely creating localized variations in the paper density during the papermaking process. The image is visible as darker and lighter areas when held against a light source. Like the embedded thread, it does not copy on color copiers.

Color-Shifting Inks. These inks change color when viewed from different angles. For instance, an ink that may appear gold when viewed directly may change to green when viewed obliquely.

Moiré-Generating Line Structures. These types of line structures appear normal to the human eye but cannot be properly resolved by scanning equipment. This results in the creation of spurious images, or moiré patterns, in the digital output, producing a copy that is noticeably distinguishable from the original.

July 13, 1994

FEATURES UNDER CONSIDERATION



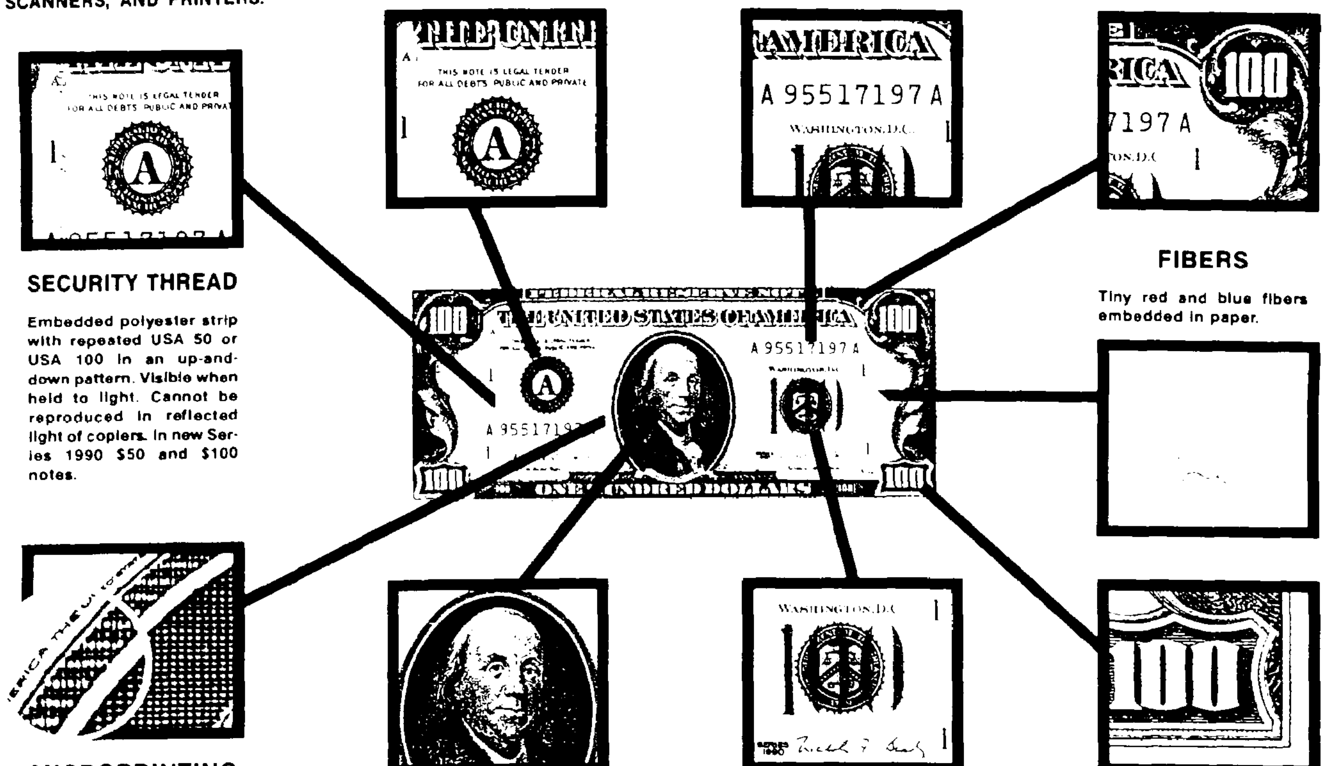
Shaded portions indicate areas for numerals, titles and traditional engraved borders.

July 13, 1994

CURRENT SECURITY FEATURES

NEW FEATURES

TO DETER COUNTERFEITING WITH ADVANCED COPIERS, SCANNERS, AND PRINTERS.



FEDERAL RESERVE SEAL

Issuing Federal Reserve Bank. Code letter same as first letter in two serial numbers.

SERIAL NUMBERS

Two serial numbers distinctively styled and evenly spaced. Ink color same as Treasury seal. No two notes of *same series* and denomination have same serial number.

BORDER

Border's fine lines and lacy, weblike design distinct and unbroken.

SECURITY THREAD

Embedded polyester strip with repeated USA 50 or USA 100 in an up-and-down pattern. Visible when held to light. Cannot be reproduced in reflected light of copiers. In new Series 1990 $50 and $100 notes.

FIBERS

Tiny red and blue fibers embedded in paper.

MICROPRINTING

"The United States of America" printed repeatedly on sides of portrait. Letters too small to read without a magnifier or for distinct copier reproduction. In new Series 1990 $50 and $100 notes.

PORTRAIT

Lifelike portrait distinct from fine, screenlike background.

TREASURY SEAL

Sawtooth points sharp, distinct, and unbroken. Seal's color same as two serial numbers.

DENOMINATION

Note's value on corners same as over Treasury seal.

ENGRAVED PRINTING

Engraved plate printing gives new notes embossed "feel"

PAPER

Cotton and linen rag paper has strong, pliable "feel." No watermarks

Published 1991

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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Remarks of Deputy Treasury Secretary Roger Altman
Before the Democratic Leadership Council Southwestern Forum
Austin, Texas
June 25, 1994

There are two reasons I'm particularly happy to be here today. The first is the DLC. I've long been a supporter and I think it's an important and forward looking influence. Lots of credit is due to Al From and the others who did the hard work to make the DLC into such a force.

The second is that I have a very soft spot in my heart for Austin. It was here, in December 1992, that I met with someone who has since had a great influence on my life. And that's Lloyd Bentsen. Perhaps there's a more able, more effective leader in this country, but you'd have to spend a lifetime looking for him. It's been a special privilege for me to work so closely with him.

I'd like to talk a little bit about the record of this Administration and how it squares with the principles of the DLC. But, first, let me put this question into a wider perspective. The United States, it seems to me, is at a cross-roads. We remain the richest nation on earth and the only superpower. And many of our strengths are as deep as ever - our technology and innovation, our system of higher education, our military.

But, we have been weakening ourselves over the past fifteen or twenty years and everyone in this room knows it. It's not unpatriotic or un-American, or pessimistic to say so; it's a reality. Living standards for most Americans have been stagnant, after generations of upward mobility. Crime runs through too many of our towns and our cities and personal security is elusive for many. The gaps between the haves and the have nots in our society have been widening, and the demands of the global information age make it harder to find good jobs at good wages. The bedrock values of community and neighbor and church and family are more fragile now. And cynicism runs deep in our land.

Into these anxieties, a few years ago, stepped the DLC. Founded on the notion that the Democratic Party had to look to the future, not the past. That this Party isn't as effective as it used to be and needed redirection. And, in many respects, the rise of the DLC led to the rise of Bill Clinton. A new Democrat who campaigned and now governs on themes of community, responsibility and investment. Sure, the DLC doesn't agree with every single decision he's made, but he has stuck to its principles and more closely than he's given credit for.

And, what has he done? Start with the economy, which was the central issue in the 1992 campaign. The new President's very first action was to come forth with a dramatic economic plan. It called for finally fixing the deficit by cutting $500 billion over five years and with no gimmicks. And it called for increasing public investment in a few areas where only the government can lead. In other words, shifting federal priorities toward investment even in the context of declining deficits. After one of the bloodiest legislative battles in many years, Congress passed it.

Now, did most people expect this new, young, Democratic President to attack the deficit that way? I don't think so. He went against the grain. And, it has worked; the deficit has been cut in half, relative to its claim on GDP. We will have three years of falling deficits for the first time since Harry Truman.

And that whole prospect triggered a precipitous drop in interest rates. The credit-sensitive industries - autos, housing, construction - got going. They kicked the economy into gear. Now, it's humming: 3.4 million new private sector jobs in less than 18 months; the unemployment rate down to 6%; we see 3% growth; only 3% inflation and a similar outlook for next year. Yes, interest rates have risen some, as they always do when economies strengthen, but they're still low by standards of the past 25 years.

Every Administration always says that it wants steady growth with low inflation. Not many deliver on that, but Bill Clinton has.

And the most encouraging development of all is that private investment is up sharply. Investment in equipment - the key to productivity - rose 18% last year and is expected to rise 8% this year. That's crucial because higher productivity is the key to higher standards of living.

If you wonder why so many Americans have experienced stagnant incomes, you need look no further than the poor investment trends of recent years, including a 40 year low in the net private investment share of GDP in 1992. That's why cutting the deficit is so important -- to direct more of our savings into investment.

Let's turn to the other side of investment - the President's public investments. Why does he care so much about them in an age when it's fashionable to describe all public spending as bad?

First, because there are areas where investment can only come from government - education, basic research, public infrastructure, to name three. And, just as our private investment had been too low, so was federal investment. I stress the word investment because federal spending wasn't too low, just the investment portion of it.

Second, because we live in an age of mobile capital and mobile production where the one crucial economic asset which is here to stay is our workforce. But, the new global age requires that our workers be better educated and better trained. We're all familiar with the discouraging data on educational achievement and the shortage of job training in this country. We have been underinvesting in our workforce and must reverse that.

Those are the principles of our public investment strategy. The Congress has supported most of the Clinton proposals in this area. We got nearly 70% last year and we'll be near that level this year.

There's the Earned Income Tax Credit: an incentive to work. We're now extending it to 20 million Americans. It's based on a simple promise -- if you work full time and have a family, you won't live below the poverty line.

There's the National Service Plan: to raise the number of college educated workers. Again a threshold promise. We'll finance your college education if you agree to two years of community service or to a tough regime of loan repayment once you start to work.

There's Head Start: to prepare low income children for school, serving 40,000 more children this year and 90,000 more next year. And there are several others, which I won't detail here. They are investments, not pork.

And we're financing these in the context of a freeze on discretionary spending. That's right. We're cutting other programs to pay for these investments. That's cut and invest and that's the DLC.

And then there's an aggressive investment agenda still ahead. The top priorities are welfare reform and the Re-employment Act - both aimed at better preparing people for the work force: again, an investment in work. And then there's health care, and I want to say a word about that.

There are three key realities about our present health care system. First, we have the best base of medical technology and R&D and advanced care in the world. Second, we're spending almost twice as much as any other industrialized nation and covering a smaller percentage of our population. Third, the affluent are covered and so are the poor. It's the middle class where the uninsured are and where the risks are.

What is President Clinton basically trying to do in light of these realities? He's trying to achieve what every other G-7 nation has - universal coverage. If you're sick, you're covered; if you move, you're covered; if you lose your job, you're covered. And, as so many experiments at the State level have shown, you can't get costs under control without universal coverage. Otherwise there is so much shifting of costs onto those with coverage that they can't be controlled.

He's trying also to build two old-fashioned economic rules into our health care system - competition and cost consciousness. Competition by creating the same purchasing power for small business, the self employed and non-workers as big business has. In other words, volume discounts. And, cost consciousness by requiring that another 30% of Americans pay something out of their own pockets for health care so they'll shop around for it.

Now, there rarely has been a public debate more heated and more vitriolic than the health care debate we've been seeing. There is enough misinformation, disinformation and distortion to last a lifetime. If you go back, you'll see that it's just like the Social Security debates of the 1930's.

But, there will be a health care bill in 1994. It won't create a giant new bureaucracy. It will be deficit neutral in the early years and then cut future deficits. It will reduce the crushing burden on business of skyrocketing health costs, and it will eventually cover every American.

My friends, let's put aside the daily slings and arrows and ask, what is the President accomplishing? He's doing what he was elected to do: he's acting, he's leading.

They said the economic plan was dead, but it passed and it's working. They said that the Brady Bill and the assault weapon ban would never be passed, but they were. They said that the seven-year-old GATT negotiations would never be consummated, but they were and the legislation will pass this year. Now, they're saying health care is dead. Well, it isn't. There's going to be a bill, and a good one. And, fifty-one years after the first national health insurance legislation was introduced.

Internationally, our most important relationship - Russia - is working well. We're leading a worldwide effort to facilitate Russia's economic conversion and there are some encouraging signs. Our second most important relationship is China, where the President recently made a courageous decision and solved the problem he inherited. The Middle East? - There are genuine peace negotiations between Israel and the PLO for the first time ever.

I began by saying that America is at a crossroads and that our society is under great stress. And I've talked about the Clinton Administration and what we're trying to do about it. And how we have an aggressive, imaginative President who's leading.

But, the ultimate solutions to our social problems don't lie in Washington and they don't lie in Austin. They lie on everyone's street corner; at everyone's church, neighborhood center, hospital and homeless shelter. Because it is only you and I as individual citizens who can strengthen the values which are at the center of American life. The values of community, of neighbor, of volunteerism and of the helping hand. It is up to us as individuals to live these principles, not just talk about them.

Let me close with an example: at Boston City Hospital - a municipal facility - there's a program called Reach Out and Read (ROAR). It's very simple. Older people come to the waiting rooms and read to children and give them free books. Of the children who visit that hospital, 25% are cognitively behind; they're poor, come from broken families. But, the act of reading awakens in them an interest in it, both among the children and the parents. It's simple, but it makes a difference. And, that can be more rewarding, in personal terms, than working on the most complex federal legislation or the most visible public policy problem.

Please, think about it.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

Hedging Regulations: Summary
Filed July 13, 1994

Background. Many businesses reduce risks arising from normal operations by entering into hedging transactions. For example, a manufacturer may hedge the risk of increases in the price of a commodity used in manufacturing its finished goods by entering into a "long" futures contract to purchase that commodity at a fixed price at a future date. If the price of the commodity increases, the manufacturer has a gain on its futures contract that is intended to offset the higher purchase price of the commodity.

The tax treatment of gains or losses on a business hedging transaction is an element of the cost of that transaction to the business. Uncertainty in tax treatment could discourage a business from entering into hedging transactions that would otherwise serve to reduce risks. The proper tax treatment of gains and losses from business hedging activities has been uncertain since the Supreme Court rendered its decision in Arkansas Best Corp. v. Commissioner, 485 U.S. 212 (1988). This uncertainty was so significant, in fact, that Congress requested, in the legislative history of the Omnibus Budget Reconciliation Act of 1993, that the Treasury study the treatment of hedging transactions and make recommendations to the tax writing committees on the best resolution to the problem.

On October 20, 1993, temporary and proposed regulations relating to the character and timing of gains and losses from most common business hedging transactions were published in the Federal Register. The approach taken in these regulations was intended to resolve the controversies regarding business hedging transactions created by the Supreme Court's decision in Arkansas Best.

The regulations were generally well-received, however, comments were made at the public hearing and in subsequent communications. After considering those comments, we are now issuing final regulations.

Final Regulations. The final regulations generally adopt the approach of the proposed and temporary regulations, with certain modifications. Among the most important modifications is the addition of a rule that will allow most taxpayers to hedge their purchases of noninventory supplies. The rule provides that hedges of purchases of noninventory supplies will receive ordinary gain or loss treatment if a taxpayer uses, rather than sells, all but a negligible portion of those supplies. Thus, for example, a cattle farmer hedging the cost of feed, or an airline hedging the cost of jet fuel, may be eligible for ordinary treatment on these hedges. The final regulations also contain more detail on many of the definitions and operational aspects of the proposed and temporary regulations for which taxpayers requested additional guidance, and generally provide flexibility to taxpayers in applying the regulations to their specific hedging activities.

Newly Proposed Regulations. In addition to the final regulations, a new set of rules has been proposed to address hedging transactions entered into by members of a group of corporations filing consolidated federal income tax returns. The newly proposed regulations provide guidance on the application of the final character and timing regulations to hedging transactions entered into by members of a consolidated group. Guidance in this area is necessary because many businesses that are conducted through separate but related corporations centralize their hedging operations in a single corporation.

Summary. The proposed and temporary regulations issued in October were an important step in the effort to clarify the tax treatment of hedging transactions. The final regulations continue that progress, and also provide taxpayers sufficient flexibility to apply the rules to their specific types of hedging activities. The newly proposed regulations will also provide certainty in the tax treatment of hedging transactions undertaken by members of consolidated groups. The regulations do not cover all hedging transactions. For example, a hedge of an ordinary stream of income from a capital asset (such as a hedge of dividend or interest income from an investment asset) is not covered by these regulations. Nevertheless, the final and newly proposed regulations will resolve much of the uncertainty that existed previously with respect to many common business hedging transactions.

[4830-01-u]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Parts 1 and 602

[TD 8554]

RIN 1545-AS96

Clear Reflection of Income in the Case of Hedging Transactions

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations relating to accounting for business hedging transactions. Elsewhere in the Rules and Regulations portion of this issue of the **Federal Register**, the IRS is issuing final regulations to clarify the character of gain or loss recognized from the sale or exchange of property that is part of a business hedge. The final regulations in this document are needed to provide guidance to taxpayers regarding when gain or loss from common business hedging transactions is taken into account for tax purposes.

DATES: These regulations are effective [**INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER**].

For dates of applicability of these regulations, see §1.446-4(g).

FOR FURTHER INFORMATION CONTACT: Jo Lynn Ricks of the Office of the Assistant Chief Counsel (Financial Institutions and Products), Internal Revenue Service, 1111 Constitution Avenue, NW, Washington, DC 20224 (attn: CC:DOM:FI&P). Telephone (202) 622-3920 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collection of information contained in these final regulations has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3504(h)) under control number 1545-1412. The estimated annual burden per respondent or recordkeeper varies from .1 to 10 hours, depending on individual circumstances, with an estimated average of .5 hours.

Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be sent to the **Internal Revenue Service**, Attn: IRS Reports Clearance Officer, PC:FP, Washington, DC 20224, and to the **Office of Management and Budget**, Attn: Desk Officer for the Department of the Treasury, Office of Information and Regulatory Affairs, Washington, DC 20503.

Background

On October 20, 1993, the IRS published in the **Federal Register** (58 FR 54077) a notice of proposed rulemaking (FI-54-93) relating to accounting for business hedging transactions. The notice also contained proposed amendments to regulations under sections 446 (relating to accounting for notional principal contracts) and 461 (relating to general rules on the taxable year of deduction).

On January 19, 1994, the IRS held a public hearing on the proposed regulations. In addition, the Service received a number of written comments on the proposed regulations. The proposed regulations, with certain modifications and changes, are adopted as final regulations. The changes, and several of the suggestions that were not adopted, are discussed below.

Explanation of provisions

Under the final regulations, a hedging transaction defined in §1.1221-2(b) must be accounted for under the rules of §1.446-4. This requirement applies regardless of whether the character of the gain or loss on the hedging transaction is determined under §1.1221-2. Thus, for example, certain section 988 transactions that are described in §1.1221-2(b) are accounted for under the rules of this section.

The regulations require taxpayers to clearly reflect income by reasonably matching the timing of the income, deduction, gain, or loss from a hedging transaction with the timing of income, deduction, gain, or loss from the hedged item or items. The regulations generally provide significant flexibility to taxpayers in determining the appropriate method of accounting for their different hedging transactions.

Some commentators suggested that any hedge accounting method employed by a taxpayer for financial statement purposes should be treated as satisfying the matching requirement. Because the financial accounting standards for hedges are in a state of development, however, the final regulations do not expressly sanction the use of financial accounting methods. Nevertheless, the Service and Treasury expect that the hedge accounting methods employed by most taxpayers for financial accounting purposes will satisfy the clear reflection standard in the final regulations.

The final regulations require taxpayers to maintain books and records containing a description of the accounting method used for each type of hedging transaction in sufficient detail to demonstrate how the clear reflection standard is met. For each hedging transaction, in addition to the identification required by the regulations under section 1221, the final regulations require whatever more specific identification is necessary to verify the application of the method of accounting used by the taxpayer for that transaction.

Various commentators requested that the regulations provide specific examples or other guidance on the type of additional information the IRS expects taxpayers to provide. Because the identification that is needed depends upon the method of accounting being used and the types of items or risk being hedged, however, specific rules cannot be provided. For example, taxpayers using a mark-and-spread method of accounting for aggregate hedges will identify the spread period in their books and records, but taxpayers using other methods will not.

The proposed regulations provided no specific guidance on the appropriate method of accounting for global hedges and other hedges of aggregate risk. The preamble, however, solicited comments on this issue. Many commentators suggested that the regulations should provide for an aggregate hedge account, in which both the hedging transactions and the hedged items would be accounted for under a particular method. Methods suggested included a periodic mark-to-market method modeled on the mixed straddle accounts of section 1092(b) and realization-based methods with loss-deferral or loss-limitation provisions.

Because these regulations concern only accounting for hedging transactions, the IRS and Treasury are concerned about expanding the regulations to allow mark-to-market accounting for hedged items in an aggregate hedge account. Many taxpayers are not currently using mark-to-market accounting, and general changes to their methods of accounting for hedged items would create issues that are beyond the scope of the regulations. Realization-based methods of accounting for aggregate hedge accounts would only be appropriate if coupled with loss-deferral or loss-limitation provisions, and the IRS and Treasury are concerned about their authority to impose these restrictions. Accordingly, the regulations do not adopt the suggestion that an aggregate hedge account should be permitted.

The final regulations restate the general matching rule for hedges of aggregate risk and require taxpayers to match the timing of income, deduction, gain, or loss from the hedging transaction to the timing of the aggregate income, deduction, gain, or loss from the items being hedged. The regulations further provide that the "mark-and-spread" method currently employed by many taxpayers to account for hedges of aggregate risk for financial accounting purposes may provide an appropriate and reasonable match. Under the mark-and-spread method described in the regulations, the taxpayer periodically marks the hedging transactions to market and takes the gain or loss into account over the period for which the hedge is intended to reduce exposure to risk. Similar spreading applies to realized income, deduction, gain, and loss. Under this method, the period over which the hedging transaction is intended to reduce risk (and thus the period over which the gains and losses are taken into account) may change over time, depending upon a taxpayer's particular hedging strategies. The period used, however, must be reasonable and consistent with those strategies. It is anticipated that the identification and recordkeeping required by §§1.446-4(d) and 1.1221-2(e) will support the reasonableness of a taxpayer's spread period.

The mark-and-spread method is not the only method that clearly reflects income for hedges of aggregate risk. The final regulations also state that, if a taxpayer hedges its aggregate risk with a notional principal contract, taking into account gains and losses in accordance with §1.446-3 of the regulations may clearly reflect income. Other methods of accounting also may be appropriate. Like the proposed regulations, the final regulations allow flexibility in attaining the reasonable matching required by the general rule.

The proposed regulations contained several provisions applicable to inventory hedging transactions. The general rule in the proposed regulations was that gains and losses on hedges of inventory purchases may be taken into account at the same time they would be taken into account if they were elements of inventory cost. Similarly, gains and losses on hedges of sales of inventory may be taken into account at the same time they would be if they were elements of gross sales proceeds.

In response to comments, the final regulations clarify the general rule for inventory hedges and extend it to hedges of aggregate inventory risk. A hedge of an aggregate risk cannot be associated with particular purchase or sales transactions. Accordingly, the final regulations provide that taxpayers may account for hedges of purchases under the mark-and-spread method, with the modification that the gain or loss spread to particular periods is taken into account in the same period it would have been if it had been an increase or decrease to inventory cost incurred in the particular period. Similarly, a taxpayer may account for hedges of sales of inventory under a mark-and-spread approach, with the gain or loss that is spread to a particular period taken into account in the same period it would have been if it had been an increase or decrease to gross sales proceeds.

The final regulations clarify certain simplified methods of accounting for inventory hedges that were provided in the proposed regulations. First, the proposed regulations provided a special rule allowing taxpayers to take hedging gains and losses into account when realized, if the hedging transactions are closed when the hedged inventory items are sold and units are included in inventory at cost. Because the general rule has been clarified to encompass this approach, this provision is not separately stated in the final regulations.

Second, the final regulations continue the simplified method of taking into account gains and losses on hedges of both purchases and sales as though those gains and losses were elements of inventory cost. The regulations make it clear that it is realized gains and losses that are so taken into account. The regulations also continue to prohibit the use of this method by LIFO taxpayers. The IRS and Treasury believe that significant distortions of income might result if gains and losses on sales hedges became buried in inventory cost layers.

Finally, the simplified method of marking to market inventory hedging transactions is clarified to allow the mark-to-market gain or loss to be taken into account immediately, instead of being treated as an element of cost or gross proceeds. The final regulations continue the proposed prohibition on the use of this method by LIFO taxpayers and by taxpayers employing a lower-of-cost-or-market method of accounting for inventory. Moreover, this method may be used only if items are held in inventory for short periods of time.

The final regulations clarify when the built-in gain or loss on the hedging transaction is taken into account where a taxpayer disposes of the hedged item but does not dispose of the hedging transaction. In this situation, the taxpayer must appropriately match the built-in gain or loss on the hedging transaction to the gain or loss on the disposed item. This matching may be met by marking to market the hedge on the date of disposition of the hedged item. If the taxpayer intends to dispose of the hedging transaction within a reasonable period, the taxpayer may match the realized gain or loss on the hedging transaction with the gain or loss on the disposed item. However, if the taxpayer intends to dispose of the hedging transaction within a reasonable period and the hedging transaction is still in place after that period, the taxpayer must match the gain or loss on the hedge at the end of the reasonable period with the gain or loss on the disposed item. For these purposes, a reasonable period is generally seven days.

The final regulations provide rules of accounting for recycled hedges (positions that previously hedged one item but that the taxpayer has re-identified as hedging another). The new rules are similar to those of the proposed regulations for treatment of hedges after disposition of the hedged asset or liability. A taxpayer recycling a hedge of a particular hedged item to serve as a hedge of another item must match the built-in gain or loss on the hedge at the time of the recycling to the income, deduction, gain, or loss on the original hedged item. Income, deduction, gain, or loss on the hedge after the recycling must be matched to the income, deduction, gain, or loss on the new hedged item, items, or aggregate risk. This matching may be accomplished by marking the hedge to market at the time of the recycling.

The preamble to the proposed regulations invited comments on the appropriate accounting for anticipatory hedges where the anticipated transaction is not consummated. Most commentators suggested that gains or losses be taken into account when realized. Others suggested that any gain or loss realized on the hedging transaction be taken into account at the same time it would have been taken into account if the anticipated transaction had been consummated and the timing of the gain or loss on the hedge had been matched with the timing of the gain or loss on the hedged item. Still others suggested an arbitrary spread period.

The first suggestion was adopted. The regulations provide that, if an anticipated transaction is not consummated, any income, deduction, gain, or loss on the hedging transaction is taken into account when realized. The regulations provide that a transaction is consummated upon the occurrence, within a reasonable time period, of either the anticipated transaction or a different but similar transaction for which the hedge serves to reasonably reduce risk. The IRS will view the "similar transaction" parameters broadly to prevent taxpayers from realizing hedging gains and losses selectively by abandoning a planned transaction and substituting a similar transaction.

Finally, the regulations grant consent for taxpayers to change their methods of accounting for hedging transactions. The change must be made for transactions entered into on or after October 1, 1994, and must be made for the taxable year containing that date. The change is made on a cut-off basis. Therefore, no items of income or deduction are omitted or duplicated, and no adjustment under section 481 is allowed or permitted. Because the consent does not extend to changes for a subsequent tax year, consent for such a change must be requested according to the procedures established under §1.446-1(e).

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) and the Regulatory Flexibility Act (5 U.S.C. chapter 6) do not apply to these regulations, and, therefore, a Regulatory Flexibility Analysis is not required. Pursuant to section 7805(f) of the Internal Revenue Code, the notice of proposed rulemaking preceding these regulations was submitted to the Small Business Administration for comment on its impact on small business.

Drafting Information

The principal author of these regulations is Jo Lynn Ricks, Office of Assistant Chief Counsel (Financial Institutions and Products), IRS. However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects

26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

26 CFR Part 602

Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

Accordingly, 26 CFR parts 1 and 602 are amended as follows:

PART 1--INCOME TAXES

Paragraph 1. The authority citation for part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Par. 2. Section 1.446-3 is amended as follows:

1. The first sentence of paragraph (h)(2) is revised.

2. The second sentence of the introductory language of paragraph (h)(5) is revised.

3. The revisions read as follows:

§1.446-3 Notional principal contracts.

* * * * *

(h) * * *

(2) Taxable year of inclusion and deduction by original parties. Except as otherwise provided (for example, in section 453, section 1092, or §1.446-4), a party to a notional principal contract recognizes a termination payment in the year the contract is extinguished, assigned, or exchanged. * * *

* * * * *

(5) * * * The contracts in the examples are not hedging transactions as defined in §1.1221-2(b), and all of the examples assume that no loss-deferral rules apply.

* * * * *

Par. 3. Section 1.446-4 is added to read as follows:

§1.446-4 Hedging transactions.

(a) In general. Except as provided in this paragraph (a), a hedging transaction as defined in §1.1221-2(b) (whether or not the character of gain or loss from the transaction is determined under §1.1221-2) must be accounted for under the rules of this section. To the extent that provisions of any other regulations governing the timing of income, deductions, gain, or loss are inconsistent with the rules of this section, the rules of this section control.

(1) Trades or businesses excepted. A taxpayer is not required to account for hedging transactions under the rules of this section for any trade or business in which the cash receipts and disbursements method of accounting is used or in which §1.471-6 is used for inventory valuations if, for all prior taxable years ending on or after September 30, 1993, the taxpayer met the $5,000,000 gross receipts test of section 448(c) (or would have met that test if the taxpayer were a corporation or partnership). A taxpayer not required to use the rules of this section may nonetheless use a method of accounting that is consistent with these rules.

(2) Coordination with other sections. This section does not apply to--

(i) Any position to which section 475(a) applies;

(ii) Any section 988 hedging transaction if the transaction is integrated under §1.988-5 or if other regulations issued under section 988(d) (or an advance ruling described in §1.988-5(e)) govern when gain or loss from the transaction is taken into account; or

(iii) The determination of the issuer's yield on an issue of tax-exempt bonds for purposes of the arbitrage restrictions to which §1.148-4(h) applies.

(b) Clear reflection of income. The method of accounting used by a taxpayer for a hedging transaction must clearly reflect income. To clearly reflect income, the method used must reasonably match the timing of income, deduction, gain, or loss from the hedging transaction with the timing of income, deduction, gain, or loss from the item or items being hedged. Taking gains and losses into account in the period in which they are realized may clearly reflect income in the case of certain hedging transactions. For example, where a hedge and the item being hedged are disposed of in the same taxable year, taking realized gain or loss into account on both items in that taxable year may clearly reflect income. In the case of many hedging transactions, however, taking gains and losses into account as they are realized does not result in the matching required by this section.

(c) Choice of method and consistency. For any given type of hedging transaction, there may be more than one method of accounting that satisfies the clear reflection requirement of paragraph (b) of this section. A taxpayer is generally permitted to adopt a method of accounting for a particular type of hedging transaction that clearly reflects the taxpayer's income from that type of transaction. See paragraph (e) of this section for requirements and limitations on the taxpayer's choice of method. Different methods of accounting may be used for different types of hedging transactions and for transactions that hedge different types of items. Once a taxpayer adopts a method of accounting, however, that method must be applied consistently and can only be changed with the consent of the Commissioner, as provided by section 446(e) and the regulations and procedures thereunder.

(d) Recordkeeping requirements--(1) In general. The books and records maintained by a taxpayer must contain a description of the accounting method used for each type of hedging transaction. The description of the method or methods used must be sufficient to show how the clear reflection requirement of paragraph (b) of this section is satisfied.

(2) Additional identification. In addition to the identification required by §1.1221-2(e), the books and records maintained by a taxpayer must contain whatever more specific identification with respect to a transaction is necessary to verify the application of the method of accounting used by the taxpayer for the transaction. This additional identification may relate to the hedging transaction or to the item, items, or aggregate risk being hedged. The additional identification must be made at the time specified in §1.1221-2(e)(2) and must be made on, and retained as part of, the taxpayer's books and records.

(3) Transactions in which character of gain or loss is not determined under §1.1221-2. A section 988 transaction, as defined in section 988(c)(1), or a qualified fund, as defined in section 988(c)(1)(E)(iii), is subject to the identification and recordkeeping requirements of §1.1221-2(e). See §1.1221-2(a)(4)(i).

(e) Requirements and limitations with respect to hedges of certain assets and liabilities. In the case of certain hedging transactions, this paragraph (e) provides guidance in determining whether a taxpayer's method of accounting satisfies the clear reflection requirement of paragraph (b) of this section. Even if these rules are satisfied, however, the taxpayer's method, as actually applied to the taxpayer's hedging transactions, must clearly reflect income by meeting the matching requirement of paragraph (b) of this section.

(1) Hedges of aggregate risk--(i) In general. The method of accounting used for hedges of aggregate risk must comply with the matching requirements of paragraph (b) of this section. Even though a taxpayer may not be able to associate the hedging transaction with any particular item being hedged, the timing of income, deduction, gain, or loss from the hedging transaction must be matched with the timing of the aggregate income, deduction, gain, or loss from the items being hedged. For example, if a notional principal contract hedges a taxpayer's aggregate risk, taking into account income, deduction, gain, or

loss under the provisions of §1.446-3 may clearly reflect income. See paragraph (e)(5) of this section.

(ii) Mark-and-spread method. The following method may be appropriate for taking into account income, deduction, gain, or loss from hedges of aggregate risk:

(A) The hedging transactions are marked to market at regular intervals for which the taxpayer has the necessary data, but no less frequently than quarterly; and

(B) The income, deduction, gain, or loss attributable to the realization or periodic marking to market of hedging transactions is taken into account over the period for which the hedging transactions are intended to reduce risk. Although the period over which the hedging transactions are intended to reduce risk may change, the period must be reasonable and consistent with the taxpayer's hedging policies and strategies.

(2) Hedges of items marked to market. In the case of a transaction that hedges an item that is marked to market under the taxpayer's method of accounting, marking the hedge to market clearly reflects income.

(3) Hedges of inventory--(i) In general. If a hedging transaction hedges purchases of inventory, gain or loss on the hedging transaction may be taken into account in the same period that it would be taken into account if the gain or loss were treated as an element of the cost of inventory. Similarly, if a hedging transaction hedges sales of inventory, gain or loss on the hedging transaction may be taken into account in the same

period that it would be taken into account if the gain or loss were treated as an element of sales proceeds. If a hedge is associated with a particular purchase or sales transaction, the gain or loss on the hedge may be taken into account when it would be taken into account if it were an element of cost incurred in, or sales proceeds from, that transaction. As with hedges of aggregate risk, however, a taxpayer may not be able to associate hedges of inventory purchases or sales with particular purchase or sales transactions. In order to match the timing of income, deduction, gain, or loss from the hedge with the timing of aggregate income, deduction, gain, or loss from the hedged purchases or sales, it may be appropriate for a taxpayer to account for its hedging transactions in the manner described in paragraph (e)(1)(ii) of this section, except that the gain or loss that is spread to each period is taken into account when it would be if it were an element of cost incurred (purchase hedges), or an element of proceeds from sales made (sales hedges), during that period.

(ii) Alternative methods for certain inventory hedges. In lieu of the method described in paragraph (e)(3)(i) of this section, other simpler, less precise methods may be used in appropriate cases where the clear reflection requirement of paragraph (b) of this section is satisfied. For example:

(A) Taking into account realized gains and losses on both hedges of inventory purchases and hedges of inventory sales when they would be taken into account if the gains and losses were elements of inventory cost in the period realized may clearly reflect income in some situations, but does not clearly reflect income for a taxpayer that uses the last-in, first-out method of accounting for the inventory; and

(B) Marking hedging transactions to market with resulting gain or loss taken into account immediately may clearly reflect income even though the inventory that is being hedged is not marked to market, but only if the inventory is not accounted for under either the last-in, first-out method or the lower-of-cost-or-market method and only if items are held in inventory for short periods of time.

(4) Hedges of debt instruments. Gain or loss from a transaction that hedges a debt instrument issued or to be issued by a taxpayer, or a debt instrument held or to be held by a taxpayer, must be accounted for by reference to the terms of the debt instrument and the period or periods to which the hedge relates. A hedge of an instrument that provides for interest to be paid at a fixed rate or a qualified floating rate, for example, generally is accounted for using constant yield principles. Thus, assuming that a fixed rate or qualified floating rate instrument remains outstanding, hedging gain or loss is taken into account in the same periods in which it would be taken into account if it adjusted the yield of the instrument over the term to which the hedge relates. For example, gain or loss realized on a transaction that hedged an anticipated fixed rate borrowing for its entire term is accounted for, solely for

purposes of this section, as if it decreased or increased the issue price of the debt instrument.

(5) Notional principal contracts. The rules of §1.446-3 govern the timing of income and deductions with respect to a notional principal contract unless, because the notional principal contract is part of a hedging transaction, the application of those rules would not result in the matching that is needed to satisfy the clear reflection requirement of paragraph (b) and, as applicable, (e)(4) of this section. For example, if a notional principal contract hedges a debt instrument, the method of accounting for periodic payments described in §1.446-3(e) and the methods of accounting for nonperiodic payments described in §1.446-3(f)(2)(iii) and (v) generally clearly reflect the taxpayer's income. The methods described in §1.446-3(f)(2)(ii) and (iv), however, generally do not clearly reflect the taxpayer's income in that situation.

(6) Disposition of hedged asset or liability. If a taxpayer hedges an item and disposes of, or terminates its interest in, the item but does not dispose of or terminate the hedging transaction, the taxpayer must appropriately match the built-in gain or loss on the hedging transaction to the gain or loss on the disposed item. To meet this requirement, the taxpayer may mark the hedge to market on the date it disposes of the hedged item. If the taxpayer intends to dispose of the hedging transaction within a reasonable period, however, it may be appropriate to match the realized gain or loss on the hedging

transaction with the gain or loss on the disposed item. If the taxpayer intends to dispose of the hedging transaction within a reasonable period and the hedging transaction is not actually disposed of within that period, the taxpayer must match the gain or loss on the hedge at the end of the reasonable period with the gain or loss on the disposed item. For purposes of this paragraph (e)(6), a reasonable period is generally 7 days.

(7) Recycled hedges. If a taxpayer enters into a hedging transaction by recycling a hedge of a particular hedged item to serve as a hedge of a different item, as described in §1.1221-2(c)(2), the taxpayer must match the built-in gain or loss at the time of the recycling to the gain or loss on the original hedged item, items, or aggregate risk. Income, deduction, gain, or loss attributable to the period after the recycling must be matched to the new hedged item, items, or aggregate risk under the principles of paragraph (b) of this section.

(8) Unfulfilled anticipatory transactions--(i) In general. If a taxpayer enters into a hedging transaction to reduce risk with respect to an anticipated asset acquisition, debt issuance, or obligation, and the anticipated transaction is not consummated, any income, deduction, gain, or loss from the hedging transaction is taken into account when realized.

(ii) Consummation of anticipated transaction. A taxpayer consummates a transaction for purposes of paragraph (e)(8)(i) of this section upon the occurrence (within a reasonable interval around the expected time of the anticipated transaction) of either the anticipated transaction or a different but similar transaction for which the hedge serves to reasonably reduce risk.

(9) Hedging by members of a consolidated group. [Reserved.]

(f) Type or character of income and deduction. The rules of this section govern the timing of income, deduction, gain, or loss on hedging transactions but do not affect the type or character of income, deduction, gain, or loss produced by the transaction. Thus, for example, the rules of paragraph (e)(3) of this section do not affect the computation of cost of goods sold or sales proceeds for a taxpayer that hedges inventory purchases or sales. Similarly, the rules of paragraph (e)(4) of this section do not increase or decrease the interest income or expense of a taxpayer that hedges a debt instrument or a liability.

(g) Effective date. This section applies to hedging transactions entered into on or after October 1, 1994.

(h) Consent to change methods of accounting. The Commissioner grants consent for a taxpayer to change its methods of accounting for transactions that are entered into on or after October 1, 1994, and that are described in paragraph (a) of this section. This consent is granted only for changes for the taxable year containing October 1, 1994. The taxpayer must describe its new methods of accounting in a statement that is included in its Federal income tax return for that taxable year.

Par. 4. In §1.461-1, paragraph (a)(2)(iii)(B) is revised to read as follows:

<u>1.461-1 General rules for taxable year of deduction</u>.

(a) * * *

(2) * * *

(iii) * * *

(B) If the liability of a taxpayer is subject to section 170 (charitable contributions), section 192 (black lung benefit trusts), section 194A (employer liability trusts), section 468 (mining and solid waste disposal reclamation and closing costs), or section 468A (certain nuclear decommissioning costs), the liability is taken into account as determined under that section and not under section 461 or the regulations thereunder. For special rules relating to certain loss deductions, see sections 165(e), 165(i), and 165(l), relating to theft losses, disaster losses, and losses from certain deposits in qualified financial institutions.

* * * * *

PART 602--OMB CONTROL NUMBERS UNDER THE PAPERWORK REDUCTION ACT

Par. 5. The authority citation for part 602 continues to read as follows:

Authority: 26 U.S.C. 7805.

Par. 6. Section 602.101(c) is amended by adding an entry in numerical order to the table to read as follows:

§602.101 OMB Control numbers.

* * * * *

(c) * * *

CFR part or section where identified and described	Current OMB control number
* * * * *	
1.446-4	1545-1412
* * * * *	

Margaret Milner Richardson

Commissioner of Internal Revenue

Approved: June 3, 1994

Samuel Y. Sessions

Acting Assistant Secretary of Treasury

[4830-01-u]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[FI-34-94]

RIN 1545-AS75

Hedging Transactions by Members of a Consolidated Group

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking and notice of public hearing.

SUMMARY: This document contains proposed regulations relating to the character and timing of gain or loss from certain hedging transactions entered into by members of a consolidated group. These proposed regulations apply when one member of the group hedges the risk of another member or enters into a hedge with another member. The regulations are needed because related-party hedging is a common business practice and existing regulations treat as hedging transactions only hedges entered into by a taxpayer to reduce its own risk. This document also provides notice of a public hearing on these proposed regulations.

DATES: Written comments must be received by September 26, 1994. Requests to speak (with outlines of oral comments) at a public hearing scheduled for October 18, 1994, must be received by September 26, 1994.

ADDRESSES: Send submissions to: CC:DOM:CORP:T:R (FI-34-94) room 5228, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044. In the alternative, submissions may be hand delivered between the hours of 8 a.m. and 5 p.m. to: CC:DOM:CORP:T:R (FI-34-94), Courier's Desk, Internal Revenue

Service, 1111 Constitution Avenue NW, Washington, DC. The public hearing has been scheduled to be held in room 3718, 1111 Constitution Avenue, NW, Washington, DC, 20224.

FOR FURTHER INFORMATION CONTACT: Concerning the regulations, Jo Lynn Ricks of the Office of the Assistant Chief Counsel (Financial Institutions and Products), (202) 622-3920 (not a toll-free number); concerning submissions and the hearing, Carol Savage, (202) 622-8452 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collections of information contained in this notice of proposed rulemaking have been submitted to the Office of Management and Budget for review in accordance with the Paperwork Reduction Act (44 U.S.C. 3504(h)). Comments on the collections of information should be sent to the **Office of Management and Budget,** Attn: Desk Officer for the Department of the Treasury, Office of Information and Regulatory Affairs, Washington, DC 20503, with copies to the **Internal Revenue Service,** Attn: IRS Reports Clearance Officer, PC:FP, Washington, DC 20224.

The collections of information are in §§1.1221-2(d)(2)(iv) and 1.1221-2(e)(5). This information is required by the IRS to aid it in administering the law and to prevent manipulation, such as recharacterization of transactions in view of later developments. This information will be used to determine whether the taxpayer has elected separate-entity treatment under §1.1221-2(d)(2) and to verify that the taxpayer is properly reporting its business hedging transactions. The likely respondents and recordkeepers are businesses or other for-profit institutions.

Estimated total annual reporting and recordkeeping burden: 75,000 hrs.

The estimated annual burden per respondent or recordkeeper varies from 1.0 to 40.0 hours, depending on individual circumstances, with an estimated average of 5 hours.

Estimated number of respondents and recordkeepers: 15,000.

Estimated frequency of responses: once in the existence of each respondent.

Background

Final regulations under section 1221, published elsewhere in this issue of the **Federal Register**, generally provide for ordinary gain or loss from hedging transactions. To qualify as a hedging transaction, a transaction must be entered into in the normal course of business to reduce certain specified risks of the taxpayer. Final regulations under section 446, published elsewhere in this issue of the **Federal Register**, require taxpayers to account for hedging transactions in a manner that clearly reflects income by reasonably matching the timing of income, deduction, gain, or loss from the hedge with the timing of the income, deduction, gain, or loss from the item being hedged.

Because a hedging transaction must reduce the taxpayer's own risk, the regulations do not apply where a taxpayer hedges the risk of another taxpayer, even if that other taxpayer is a related party. In the preamble to TD 8493, which was published on October 20, 1993 (58 FR 54037), the IRS requested comments on the treatment of transactions involving related parties.

Several commentators suggested extending the definition of hedging transaction to the hedging of a related party's risk. Many businesses that are conducted through separate but related entities centralize their hedging operations in a single entity or a small number of entities that hedge the risks of the entire business. Centralizing the hedging function creates economies of scale and allows the risks of the business to be netted or offset against each other, with the hedging entity entering into hedges with unrelated parties only for the remaining net risk. Thus, various commentators suggested that the term hedging transaction should include hedges of the risk of other members of the same consolidated group, of affiliated corporations filing separate returns, of controlled but unaffiliated corporations, and of controlled partnerships.

Explanation of provisions

As a general rule, the proposed regulations adopt a single-entity approach to consolidated groups, applying the hedging rules to a member's transactions that hedge the risk of other members of the same consolidated group. Proposed §1.1221-2(d)(1) provides that the risk of one member of a consolidated group is treated for purposes of the hedging rules as the risk of the other members of the group as if all of the members of the group were divisions of a single corporation. Thus, if a transaction entered into by a centralized hedging member reduces the risk of the group as a whole and the other requirements of §1.1221-2 are met, the transaction qualifies as a hedging transaction.

Many consolidated groups that centralize their hedging operations execute contracts or enter into other transactions between the members to transfer risk from the operating members to the hedging member. For example, an operating member that assumes a floating rate liability may enter into an interest rate swap with the hedging member pursuant to which the operating member will pay fixed and receive floating. The hedging member nets this risk with its other interest rate risk and, if it has a net risk, may enter into an interest rate swap with a third party to offset this net risk.

Under the single-entity approach of the proposed regulations, transactions between members of a consolidated group are not hedging transactions because they do not reduce the risk of the group. Instead, these transactions are subject to the rules of section 1502 and the regulations thereunder, which govern the timing and character of income on intercompany transactions and obligations. Thus, only a transaction with a third party can qualify as a hedging transaction.

Several commentators on the proposed character and timing regulations requested that the IRS adopt a separate-entity regime for related-party hedges. They expressed concern that, under a single-entity regime, a hedging member may not have the information necessary to comply with the identification requirements imposed on hedging transactions. That is, the hedging member may not have information with respect to the transaction that gave rise to the risk that was transferred to it in the intercompany transaction.

Under a separate-entity approach, an intercompany transaction that met the definition in §1.1221-2(b) would be respected as a hedging transaction and accounted for as such, and the transaction would not be subject to the intercompany transaction regime. In other words, if a member of a consolidated group enters into a transaction to transfer risk to another member, the transaction would be treated as if it had been entered into with an unrelated party.

The IRS and Treasury recognize that, where a consolidated group uses intercompany transactions to transfer risk within the group, the separate-entity approach may facilitate the identification of hedging transactions and simplify the accounting for those transactions. A generally applicable separate-entity approach, however, frequently would not clearly reflect the income of the consolidated group and might be subject to manipulation. Moreover, a general separate-entity approach for hedges would be contrary to the single-entity approach of recently proposed §1.1502-13, and it would be difficult to coordinate the treatment of intercompany hedging transactions with the treatment of other intercompany transactions.

Despite the concern with a general separate-entity approach, the IRS and Treasury believe that there is less opportunity for manipulation or distortion if a member of a group enters into a hedging transaction with another member that is using mark-to-market accounting for tax purposes. Thus, when a group contains a hedging member that accounts for the transaction on a mark-to-market method of accounting, a limited separate-entity approach may be acceptable.

Therefore, the proposed regulations allow a consolidated group to make a separate-entity election. The election is made by the group for all of its hedging activities and may not be revoked without the consent of the Commissioner. If a group makes the election, the risk of one member is not treated as risk of the other members. Thus, a member can hedge only its own risk, and an intercompany transaction must be used if one member of the group wishes to transfer risk to another member.

In an electing group, certain intercompany transactions are recognized as hedging transactions for purposes of §1.1221-2. An intercompany transaction is treated as a hedging transaction if it would be a hedging transaction if entered into with an unrelated party, and if it is entered into with another member that, under its method of accounting, marks the position to market. Thus, for example, an operating member could enter into a hedging transaction with a hedging member that marks the position obtained to market under section 475. As a result of the separate-entity election, the hedging transaction is not treated as an intercompany transaction or obligation for purposes of section 1502 and the regulations thereunder, and any gain or loss to the member marking to market the position obtained is ordinary.

This special treatment is provided only for intercompany transactions entered into with a member that marks its position to market. If an identical transaction is entered into with a member of the group that does not mark to market the position obtained, the transaction is subject to the intercompany transaction rules under section 1502. Thus, the separate-entity election is likely to be made only by a group whose intercompany hedging activity is done with a member that uses a mark-to-market method of accounting.

The proposed regulations provide identification rules that conform to the treatment of hedging transactions described above. If a consolidated group is under the general rule of the regulations (the single-entity approach), identification is done as if the members of the group were divisions of a single corporation. The member engaging in a hedging transaction with an unrelated party identifies the transaction and the item, items, or aggregate risk being hedged, even if the item, items, or aggregate risk is that of another member.

If a group is under the general rule but uses intercompany transactions to transfer risk within the group, it may satisfy the identification requirement by identifying the item, items, or aggregate risk being hedged, its intercompany transactions, and its hedging transactions with unrelated parties. Although the intercompany transactions are not respected as hedging transactions, their identification should enable the group to associate hedging transactions with the item, items, or aggregate risk being hedged.

If a group makes the separate-entity election, each member must identify its hedging transactions with unrelated parties, its intercompany transactions that are treated as hedging transactions under these regulations, and the item, items, or aggregate risk being hedged, as appropriate.

The proposed regulations also provide rules with respect to the effects of identification and nonidentification. If a group is under the general rule, the rules of §1.1221-2(f) apply to a hedging transaction, but not to intercompany transactions. If a group makes the separate-entity election, the rules of §1.1221-2(f) are extended to intercompany transactions that are treated as hedging transactions under these regulations.

Finally, the proposed regulations provide new rules with respect to timing under §1.446-4. If a group is under the general rule, it accounts for hedging transactions as if the members of the group were divisions of a single corporation. The income, deduction, gain, or loss on a hedging transaction is matched with the income, deduction, gain, or loss on the item, items, or aggregate risk being hedged and not with an intercompany transaction. If a group makes the separate-entity election, the rules of §1.446-4 apply on a member-by-member basis to hedging transactions with unrelated parties and to intercompany transactions that are treated as hedging transactions under these regulations.

It is anticipated that these regulations will apply to transactions entered into on or after the date that is 60 days after the publication of final regulations on this subject in the **Federal Register**.

All of the rules described above apply only in the case of a consolidated group. Thus, the proposed regulations do not treat as a hedging transaction the hedging of the risk of a related party that is not a member of the same consolidated group. The IRS is concerned that the single-entity approach is generally not appropriate where the parties are not members of the same consolidated group.

Outside the context of a consolidated group, taxpayers with ordinary business risk sometimes enter into transactions to transfer risk to a related party. Commentators have requested that these transactions be treated as hedging transactions and that the entities to which risk is transferred be treated as realizing ordinary gain or loss on their positions in these transactions. The IRS is concerned, however, about whether these transactions reduce risk, whether the requested ordinary treatment to the entities receiving risk is authorized under the Internal Revenue Code (Code), and whether the approach would create opportunities for manipulation. Therefore, the proposed regulations do not include the requested rule.

The IRS intends to issue guidance under section 475 of the Code to coordinate the hedging exception of section 475(b)(1)(C) with these rules. In particular, if a consolidated group has not made a separate-entity election, the IRS is considering whether the identification of a hedging transaction by a member subject to section 475 should generally be sufficient to identify the transaction as a hedge under section 475(b)(1)(C), provided the hedged item or items are not securities subject to section

475(a). In this case, gain or loss on the hedging transaction would generally be subject to the timing rules of §1.446-4 rather than to mark-to-market treatment under section 475. Comments are requested on this matter.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) and the Regulatory Flexibility Act (5 U.S.C. chapter 6) do not apply to these regulations, and, therefore, a Regulatory Flexibility Analysis is not required. Pursuant to section 7805(f) of the Internal Revenue Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any written comments (a signed original and eight (8) copies) that are submitted timely to the IRS. All comments will be available for public inspection and copying.

A public hearing has been scheduled for Tuesday, October 18, 1994, at 10:00 a.m. in room 3718, 1111 Constitution Avenue, NW, Washington, DC, 20224. Because of access restrictions, visitors will not be admitted beyond the Internal Revenue Building lobby more than 15 minutes before the hearing starts.

The rules of 26 CFR 601.601(a)(3) apply to the hearing.

Persons that wish to present oral comments at the hearing must submit written comments by September 26, 1994, and submit an outline of the topics to be discussed and the time to be devoted to each topic (signed original and eight (8) copies) by September 26, 1994.

A period of 10 minutes will be allotted to each person for making comments.

An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

Drafting Information

The principal author of these regulations is Jo Lynn Ricks, Office of Assistant Chief Counsel (Financial Institutions and Products). However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1--INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by removing the entry for §1.1221-2 and by adding entries in numerical order to read as follows:

Authority: 26 U.S.C. 7805 * * *

Section 1.446-4 also issued under 26 U.S.C. 1502. * * *

Section 1.1221-2 also issued under 26 U.S.C. 1502 and 6001. * * *

Par. 2. Section 1.446-4 is amended by adding the text of paragraph (e)(9) to read as follows:

§1.446-4 Hedging transactions.

* * * * *

(e) * * *

(9) Hedging by members of a consolidated group--(i) General rule. In general, a member of a consolidated group that hedges the risk of another member must account for its hedging transactions as if all of the members were separate divisions of a single corporation. Thus, the timing of the income, deduction, gain, or loss on a hedging transaction must be matched with the timing of income, deduction, gain, or loss from the item or items being hedged rather than with an intercompany transaction.

(ii) Separate-entity election. If a consolidated group makes an election under §1.1221-2(d)(2), each member of the consolidated group must account for its hedging transactions (including its intercompany transactions that are treated as hedging transactions) in a manner that meets the requirements of paragraph (b) of this section. Thus, each member of the group must comply with this section for its hedging transactions without regard to the fact that the taxpayer is a member of a consolidated group.

(iii) Definitions. For definitions of consolidated group, member of a consolidated group, and intercompany transaction, see section 1502 and the regulations thereunder.

(iv) Effective date. This paragraph (e)(9) applies to transactions entered into on or after the date 60 days after publication of final regulations on this subject in the **Federal Register.**

Par. 3. Section 1221-2 is amended by adding the text of paragraphs (d), (e)(5), (f)(3), and (g)(4) to read as follows:

§1.1221-2 Hedging transactions.

* * * * *

(d) Hedging by members of a consolidated group--(1) General rule. For purposes of this section, the risk of one member of a consolidated group is treated as the risk of the other members as if all of the members of the group were divisions of a single corporation. For example, if any member of a consolidated group hedges the risk of another member of the group by entering into a transaction with an unrelated person, that transaction may potentially qualify as a hedging transaction. Under this rule, intercompany transactions are not hedging transactions because they are treated as transactions between divisions of a single corporation and thus do not reduce the risk of the group.

(2) Separate-entity election. In lieu of the treatment specified in paragraph (d)(1) of this section, a consolidated group may elect separate-entity treatment of its hedges. If a group makes this separate-entity election, the following rules apply.

(i) Risk of one member not risk of other members. Notwithstanding paragraph (d)(1) of this section, the risk of one member is not treated as the risk of other members.

(ii) Intercompany transactions. An intercompany transaction or obligation is a hedging transaction with respect to a member of a consolidated group if and only if it meets the following requirements--

(A) The position of the member in the intercompany transaction or obligation would qualify as a hedging transaction with respect to that member if that member entered into the transaction with an unrelated party; and

(B) The position of the other member (the marking member) in the transaction is marked to market under the marking member's method of accounting.

(iii) Treatment of intercompany hedging transactions. An intercompany transaction or obligation that is a hedging transaction (because it meets the requirements of paragraphs (d)(2)(ii)(A) and (B) of this section) is treated as follows--

(A) Neither the hedging transaction nor any intercompany obligation with respect to that transaction is treated as an intercompany transaction or obligation for purposes of section 1502 and the regulations thereunder; and

(B) Except as provided in paragraph (f)(3) of this section, the character of the marking member's gain or loss from the transaction is ordinary.

(iv) Making and revoking the election. The election described in this paragraph (d)(2) must be made in a separate statement that is filed with the group's consolidated return for the taxable year that includes the first date for which the election is to apply. The statement must specify that the election is being made and must indicate the date that the election is to be effective. The election applies to all transactions entered into on or after the date so indicated. In no event, however, does the election apply to transactions entered into before the date 60 days after final regulations on this subject are published in the **Federal Register**. The election cannot be revoked without the consent of the Commissioner.

(3) Definitions. For definitions of consolidated group, member of a consolidated group, intercompany transaction, and intercompany obligation, see section 1502 and the regulations thereunder.

(4) Examples. These examples illustrate this paragraph (d). In these examples, O and H are members of the same consolidated group. O's business operations give rise to interest rate risk "A," which O wishes to hedge. O enters into an intercompany

transaction with <u>H</u> that transfers the risk to <u>H</u>. <u>O</u>'s position in the intercompany transaction is "<u>B</u>," and <u>H</u>'s position in the contract is "<u>C</u>." <u>H</u> enters into position "<u>D</u>" with a third party to reduce the interest rate risk it has with respect to its position <u>C</u>. <u>D</u> would be a hedging transaction with respect to risk <u>A</u> if <u>O</u>'s risk <u>A</u> were <u>H</u>'s risk.

<u>Example 1</u>. <u>Single-entity treatment</u>--(i) <u>General rule</u>. Under paragraph (d)(1) of this section, <u>O</u>'s risk <u>A</u> is treated as <u>H</u>'s risk, and therefore <u>D</u> is a hedging transaction with respect to risk <u>A</u>. Thus, the character of <u>D</u> is determined under the rules of this section, and <u>D</u> must be accounted for under a method of accounting that satisfies §1.446-4. The intercompany transaction <u>B-C</u> is not a hedging transaction, and the <u>B-C</u> transaction is accounted for according to the regulations under section 1502.

(ii) <u>Identification</u>. <u>D</u> must be identified as a hedging transaction under paragraph (e)(1) of this section, and <u>A</u> must be identified as the hedged item under paragraph (e)(2) of this section. Under paragraph (e)(5) of this section, the identification of <u>A</u> as the hedged item can be accomplished by identifying the positions in the intercompany transaction as hedges or hedged items, as appropriate. Thus, substantially contemporaneously with entering into <u>D</u>, <u>H</u> may identify <u>C</u> as the hedged item and <u>O</u> may identify <u>B</u> as a hedge and <u>A</u> as the hedged item.

<u>Example 2</u>. <u>Separate-entity election; no marking</u>. In addition to the facts stated above, assume that the group makes a separate-entity election under paragraph (d)(2) of this section. If <u>H</u> does not mark <u>C</u> to market under its method of accounting, then <u>B</u> is not a hedging transaction, and the <u>B-C</u> intercompany transaction is accounted for under the rules of section 1502. <u>D</u> is not a hedging transaction with respect to <u>A</u>, but <u>D</u> may be a hedging transaction with respect to <u>C</u> if the requirements of paragraph (b) of this section are met. If <u>D</u> is not part of a hedging transaction, then <u>D</u> may be part of a straddle for purposes of section 1092.

<u>Example 3</u>. <u>Separate-entity election; marking</u>. The facts are the same as in Example 2 above. If <u>H</u> marks <u>C</u> to market under its method of accounting and <u>B</u> would be a hedging transaction with respect to <u>O</u> if <u>O</u> had entered into that transaction with an unrelated party, then the <u>B-C</u> transaction is a hedging transaction with respect to <u>O</u>. Thus, <u>O</u>'s position <u>B</u> is a hedging transaction with respect to its risk <u>A</u>, the <u>B-C</u> transaction is not treated as an intercompany transaction or obligation, and <u>H</u>'s

income, deduction, gain or loss on C is ordinary. D is a hedge of C if it meets the requirements of paragraph (b) of this section.

(e) * * *

(5) Identification of hedges involving members of the same consolidated group--(i) General rule. If one member of a consolidated group hedges the risk of another member under the general rule of paragraph (d)(1) of this section, then the identification requirements of this paragraph (e) must be met as if all of the members of the group were divisions of a single corporation. Thus, the member entering into the hedging transaction with a third party must identify the hedging transaction under paragraph (e)(1) of this section. Under paragraph (e)(2) of this section, that member must also identify the item, items, or aggregate risk that is being hedged, even if the item, items, or aggregate risk relates primarily or entirely to other members of the group. If the members of a group use intercompany transactions or obligations to transfer risk within the group, the requirements of paragraph (e)(2) of this section may be met by identifying the intercompany transactions or obligations as hedges or hedged items, as appropriate. Because identification of the intercompany transaction as a hedge serves solely to identify the hedged item, the identification is timely if made within the period required by paragraph (e)(2) of this section. For example, if a member transfers risk in an intercompany transaction, it may identify under the rules of this paragraph (e) both its position in that transaction and the item, items, or aggregate risk being hedged. The member that hedges

the risk outside the group may identify under the rules of this paragraph (e) both its position with the third party and its position in the intercompany transaction. See paragraph (d)(4) of this section for an example of this identification.

(ii) Rule for taxpayers making the separate-entity election. If a consolidated group makes the separate-entity election under paragraph (d)(2) of this section, each member of the group must satisfy the requirements of this paragraph (e) as though it were not a member of a consolidated group.

* * * * *

(f) * * *

(3) Transactions by members of a consolidated group--

(i) General rule. If a consolidated group is under the general rule of paragraph (d)(1) of this section, the rules of this paragraph (f) apply only to hedging transactions and not to intercompany transactions.

(ii) Separate-entity election. If a consolidated group has made the election under paragraph (d)(2) of this section, then, in addition to the rules of paragraphs (f)(1) and (f)(2) of this section, the following rules apply.

(A) If an intercompany transaction is identified as a hedging transaction but does not meet the requirements of paragraphs (d)(2)(ii)(A) and (B) of this section, then both parties to the transaction are subject to the rules of paragraph (f)(1) of this section with respect to the transaction as though both had identified their positions in the transaction as hedging transactions, notwithstanding the regulations under section 1502.

(B) If a transaction that meets the requirements of paragraphs (d)(2)(ii)(A) and (B) is not identified as a hedging transaction, then both parties to the transaction are subject to the rules of paragraph (f)(2).

(g) * * *

(4) Effective date for hedges by members of a consolidated group. Paragraphs (d), (e)(5), and (f)(3) of this section apply to transactions entered into on or after the date that is 60 days after publication of final regulations in the **Federal Register**.

Margaret Milner Richardson

Commissioner of Internal Revenue

[4830-01-u]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Parts 1 and 602

[TD 8555]

RIN 1545-AR73

Hedging Transactions

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations clarifying the character of gain or loss from business hedges. In general, the regulations treat gain or loss on most hedging transactions as ordinary rather than capital. The regulations are needed to provide guidance to businesses entering into hedging transactions and to serve as a basis for resolving pending cases involving gains and losses from hedging.

DATES: These regulations are effective [**INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER**], except that the amendments relating to the removal of §1.1221-2T are effective October 1, 1994.

For dates of applicability of these regulations, see the discussion in the Dates of Applicability paragraph in the Supplementary Information portion of the preamble.

FOR FURTHER INFORMATION CONTACT: Jo Lynn Ricks of the Office of the Assistant Chief Counsel (Financial Institutions and Products), Internal Revenue Service, 1111 Constitution Avenue, NW, Washington DC 20224 (Attn: CC:DOM:FI&P). Telephone 202-622-3920 (not a toll-free call).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collection of information contained in these final regulations has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3504(h)) under control number 1545-1403. The estimated annual burden per recordkeeper varies from .1 to 10 hours, depending on individual circumstances, with an estimated average of .9 hours.

Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be sent to the **Internal Revenue Service**, Attn: IRS Reports Clearance Officer, PC:FP, Washington, DC 20224, and to the **Office of Management and Budget**, Attn: Desk Officer for the Department of the Treasury, Office of Information and Regulatory Affairs, Washington, DC 20503.

Background

This document contains final regulations amending the Income Tax Regulations (26 CFR part 1) under section 1221 of the Internal Revenue Code (Code) (relating to the definition of capital asset). The provisions affected relate to the determination of the character of gain or loss from hedging transactions.

On October 20, 1993, temporary regulations (TD 8493) providing that gain or loss on most common business hedges is ordinary rather than capital were published in the **Federal Register** (58 FR 54037). A notice of proposed rulemaking

(FI-46-93) cross-referencing the temporary regulations was published in the **Federal Register** for the same day (58 FR 54075). The regulations were intended to resolve questions that had arisen with respect to the tax treatment of business hedging following the decision of the United States Supreme Court in Arkansas Best Corp. v. Commissioner, 485 U.S. 212 (1988).

Many comments were received on the proposed regulations, and a public hearing was held on January 19, 1994. Most commentators supported the general approach of the proposed regulations, but a number suggested specific revisions to the proposed rules or the addition of rules to resolve remaining issues.

Explanation of provisions

Paragraph (a) of §1.1221-2 provides basic rules for the treatment of hedging transactions. Only minor, clarifying changes have been made to the proposed regulations.

Paragraph (a)(1) provides that property that is part of a hedging transaction, as defined in the regulations, is not a capital asset. Paragraph (a)(2) provides a similar rule for short sales and options. Where a short sale or option is part of a hedging transaction, as defined, any gain or loss on the short sale or option is ordinary. Final regulations under sections 1233 and 1234 provide that §1.1221-2 governs the character of gain or loss on short sales and options that are part of hedging transactions.

Under paragraph (a)(3), if a transaction falls outside the regulations, gain or loss from the transaction is not made ordinary by the fact that property is a surrogate for a noncapital asset, that the transaction serves as insurance against a business risk, that the transaction serves a hedging function, or that the transaction serves a similar function or purpose.

The provisions of this section generally apply to determine the character of gain or loss from transactions that also are subject to various international provisions of the Code. Paragraph (a)(4), however, provides that section 988 transactions are excluded from the character provisions of these regulations because gain or loss on those transactions is ordinary under section 988(a)(1). The regulations do apply to transactions that predate the effective date of section 988. Paragraph (a)(4) also provides that the definition of a hedging transaction under §1.1221-2(b) does not apply for purposes of the hedging exceptions to the subpart F rules of section 954(c) and certain hedging rules in the interest allocation regulations under section 864(e). The IRS and Treasury are considering the possibility of using the definition of hedging transaction and other provisions of these regulations for purposes of various international tax provisions, except where a modification of the provisions is necessary to carry out the purposes of those international provisions. Comments on this subject are welcomed.

In defining the term hedging transaction, paragraph (b) of §1.1221-2 retains the rule of the proposed regulations and adopts the concept of hedging in section 1256(e)(2)(A) of the Code. Under this rule, a hedging transaction generally is a transaction that a taxpayer enters into in the normal course of its business primarily to reduce the risk of interest rate or price changes or currency fluctuations.

A number of commentators suggested that the IRS abandon the rule of the proposed regulations and adopt a definition of hedging that looks to risk management rather than risk reduction. This comment was not adopted because the IRS and Treasury believe that the definition in section 1256 represents the best indication of congressional intent with respect to business hedges. Although the risk reduction standard has been retained, the final regulations provide rules of application designed to ensure that the definition of hedging transaction is applied reasonably to include most common types of hedging transactions.

Paragraph (c)(1) deals with the meaning of risk reduction. To enter into a hedging transaction, the taxpayer must have risk when all of its operations are considered -- that is, there must be risk on a "macro" basis. Nonetheless, a hedge of a single asset or liability, or pool of assets or liabilities, will be respected if the hedge reduces the risk attributable to the item or items being hedged and if the hedge is reasonably calculated to reduce the overall risk of the taxpayer's operations. In addition, if a taxpayer hedges a particular asset or liability, or a pool of assets or liabilities, and the hedge is undertaken as part of a program to reduce the overall risk of the taxpayer's operations, the taxpayer need not show that the hedge reduces its overall risk.

Paragraph (c)(1) also recognizes that fixed to floating hedges and certain types of written options may be risk reducing and may be used in hedging transactions. For example, a covered call with respect to assets held or a written put option with respect to assets to be acquired may reduce risk.

In addition, paragraph (c)(1) provides that a hedging transaction includes a transaction that is entered into primarily to reverse or counteract a hedging transaction. This rule recognizes that some transactions are used to eliminate some or all of the risk reduction accomplished through a hedging transaction. Although the transactions are not risk reducing if viewed independently, they are considered to be part of the larger hedging transaction.

Paragraph (c)(1) further provides that a taxpayer may hedge any part or all of its risk for any part of the period during which it has risk. The regulations also provide that the frequent entering into and termination of hedging positions is not relevant to whether transactions are hedging transactions.

Finally, paragraph (c)(1) provides that a transaction that is not entered into primarily to reduce risk is not a hedging transaction. For example, the so-called "store-on-the-board" transaction, in which a taxpayer disposes of its production and enters into a long futures or forward contract, is not a hedging transaction because the long position does not reduce risk. Moreover, gain or loss on the contract is not made ordinary on the grounds that it is a surrogate for inventory.

The IRS and Treasury understand that there are situations in which a taxpayer engages in a store-on-the-board transaction as a hedge of an expected payment under an agricultural price support program. In this situation, a long futures or forward contract may qualify as a hedging transaction with respect to the expected payment.

Paragraph (c)(2) provides that a hedging transaction may be entered into by using a position that was a hedge of one asset or liability to hedge another asset or liability.

Paragraph (c)(3) provides that the acquisition of certain assets, such as investments, may not be a hedging transaction. Even though these assets may reduce risk, they typically are not acquired primarily to reduce risk. For example, a taxpayer's interest rate risk from a floating rate borrowing may be reduced by the purchase of debt instruments that bear a comparable floating rate. The acquisition of the debt instruments, however, is not made primarily to reduce risk and, therefore, is not a hedging transaction. Similarly, borrowings generally are not made primarily to reduce risk.

Paragraph (c)(4) defines the normal course requirement of paragraph (b) to include any transaction entered into in furtherance of a taxpayer's trade or business. Thus, for example, a liability hedge meets this requirement regardless of whether the liability is undertaken to fund current operations, an acquisition, or an expansion of a taxpayer's business. This definition does not apply to other uses of the term "normal course" in the Code or regulations.

Paragraph (c)(5) retains the rule in the proposed regulations that a hedge of property or of an obligation is a hedging transaction only if a sale or exchange of the property, or performance or termination of the obligation, could not produce capital gain or loss. In response to the many comments received, however, a special rule has been added for noninventory supplies. Under this rule, if a taxpayer sells only a negligible amount of a noninventory supply, then, only for purposes of determining whether a hedge of the purchase of that noninventory supply is a hedging transaction, the noninventory supply is treated as ordinary property. In this case, the Service and Treasury believe that the theoretical possibility of ordinary loss on a hedge and capital gain on the sale of supplies should not prevent the transactions from qualifying as hedging transactions. The Service intends to issue guidance on the negligible amount standard. The comments received indicate that most taxpayers sell none of their supplies or a very small amount. Further comments are requested.

For prior years, a transition rule provides a substantially more generous standard for noninventory supplies. If, in each prior year that is open for assessment on September 1, 1994, a taxpayer sold no more than 15 percent of the greater of the total amount of a supply held at the beginning of the year or the total amount of the supply acquired in that year and meets certain other requirements, hedges of purchases of that supply are hedging transactions.

The final regulations do not provide a negligible sales rule for hedges of section 1231 assets. Sales of these assets are less predictable than sales of supplies and may occur many years after the transaction that hedges their purchase. The IRS and Treasury believe that it is inappropriate to provide ordinary treatment for the hedges when it is not known whether the assets will produce capital gains. Nonetheless, the regulations provide a special transition rule applicable to certain hedges of section 1231 assets entered into in prior years.

Paragraph (c)(6) provides that the status of liability hedges as hedging transactions is determined without regard to the use that is made of the proceeds of a borrowing. The IRS and Treasury believe that a liability hedge should not fail to qualify as a hedging transaction because the proceeds of the borrowing being hedged are used to purchase a capital asset.

Paragraph (c)(7) retains the rule in the proposed regulations that, in the case of hedges of aggregate risk, all but a de minimis amount of the risk being hedged must be attributable to ordinary property, ordinary obligations, and borrowings.

Although the purpose of the rules in paragraph (c) is to ensure that the definition of hedging transaction will be interpreted reasonably to cover most common business hedges, not all hedges are intended to be covered. For example, the regulations do not apply where a taxpayer hedges a dividend stream, the overall profitability of a business unit, or other business risks that do not relate directly to interest rate or price changes or currency fluctuations. Moreover, the regulations do not provide ordinary treatment for gain or loss from the disposition of stock where, for example, the stock is acquired to protect the goodwill or business reputation of the acquirer or to ensure the availability of goods.

The status of so-called "gap" hedges is not separately addressed in paragraph (c). Insurance companies, for example, sometimes hedge the "gap" between their liabilities and the assets that fund them. Under the proposed regulations, a hedge of those assets does not qualify as a hedging transaction if the assets are capital. Commentators, therefore, suggested that the final regulations provide a rule that deems all gap hedges to be hedges of the liabilities rather than of the assets. The IRS and Treasury, however, are concerned that, where this type of hedge is more closely associated with the assets than the liabilities, there is a significant possibility of mismatch if the hedges are given ordinary treatment and the assets can be sold for capital gains. Thus, the final regulations do not include the suggested rule.

Whether a gap hedge qualifies as a liability hedge is a question of fact and depends on whether it is more closely associated with the liabilities than with the assets. For example, a contract to purchase assets is generally not a liability hedge even if the assets are being purchased to fund the liability. Other gap hedges may be appropriately treated as liability hedges and, therefore, may qualify as hedging transactions.

The IRS and Treasury understand that the most significant consequence of the failure of gap hedges to qualify as hedging transactions may be that they are then subject to the straddle rules of section 1092. Comments are requested on whether it would be appropriate to exempt these transactions from section 1092 and apply the hedge accounting rules of §1.446-4 even though the transactions are not hedging transactions and their character is not determined under §1.1221-2. The IRS and Treasury also note that there may be different considerations for determining whether income or loss from a gap hedge should be treated as an interest equivalent for purposes of international tax provisions, such as section 864(e). Comments are also requested on this point.

Paragraph (d) is reserved in the final regulations to allow development of rules applicable to hedging by members of a consolidated group. Proposed regulations on this subject are published in the Proposed Rules section of this issue of the **Federal Register.**

Paragraph (e)(1) retains the requirement of the proposed regulations that hedging transactions must be identified before the close of the day on which they are entered into. Paragraph (e)(2), however, relaxes the rule of the proposed regulations and requires that the item, items, or aggregate risk being hedged be identified substantially contemporaneously with entering into the hedging transaction. The identification must be made no more than 35 days after entering into the hedging transaction. This time period should make it possible for taxpayers to identify the hedged item, items, or aggregate risk at the time they prepare monthly reports for nontax purposes.

Some commentators suggested eliminating entirely the requirement of identifying the item being hedged. The Service and Treasury believe, however, that this identification is needed to establish that the definition of hedging transaction is satisfied. Moreover, because special identification rules have been provided for hedges of aggregate risk and certain inventory hedges, the requirement of identifying the items being hedged should not be overly burdensome.

A transition rule is provided to extend the time period for identifying a transaction that is a hedging transaction under the final regulations and that the taxpayer reasonably treated as other than a hedging transaction under the proposed regulations. If such a transaction was entered into before October 1, 1994, and remains in existence on that date, the identification and recordkeeping requirements of paragraph (e) apply, except that the identification of both the hedging transaction and the hedged item are timely if made before the close of business on October 1, 1994. However, if the transaction was entered into before October 1, 1994, and does not remain in existence on that date, the identification and recordkeeping requirements of paragraph (e) do not apply.

Paragraph (e)(3) contains a series of special rules for identifying certain types of hedging transactions. In the case of inventory, the identification must specify the type or class of inventory to which the hedge relates. If particular inventory purchases or sales transactions are being hedged, the taxpayer must also identify the expected dates and the amounts to be acquired or sold. In the case of hedges of aggregate risk, the identification requirement is satisfied if a taxpayer's records contain a description of the hedging program and if the taxpayer establishes a system under which transactions are identified as being entered into as part of that program. The intent underlying this rule is to provide verifiable information with respect to the item being hedged without requiring the taxpayer to identify individually the many items that give rise to the aggregate risk being hedged.

Paragraph (e)(4) generally retains and expands the rules of the proposed regulations with respect to how an identification is made. It must be clear that the identification is being made for tax purposes. In lieu of separately identifying each transaction, however, a taxpayer may establish a system in which identification is indicated by the type of transaction or the manner in which the transaction is consummated or recorded.

Paragraph (e)(5) is reserved to deal with the required identification where the taxpayer is a member of a consolidated group, and paragraph (e)(6) provides that an identification for purposes of section 1256(e)(2)(C) is also an identification for purposes of §1.1221-2(e)(1).

Paragraph (f) deals with the effect of identification and non-identification and provides rules that generally are unchanged from the proposed regulations. The only significant change is the addition of a rule that allows correction of an inadvertent identification in some circumstances. If the correction is allowed, the transaction is not subject to the ordinary-gain, capital-loss rule that generally applies to transactions that are incorrectly identified as hedging transactions.

Final regulations under section 1256 retain the rules of the proposed regulations that coordinate the identification of hedges for purposes of section 1256(e). In addition, the regulations provide that, if a taxpayer inadvertently identifies a transaction as a hedging transaction and corrects it in accordance with paragraph (f)(1)(ii) of §1.1221-2, the transaction is treated as if it were not identified as a hedging transaction for purposes of section 1256(e)(2)(C). Thus, section 1256(f)(1) does not impose ordinary-gain, capital-loss treatment on the transaction.

Dates of Applicability

Except for the identification rules of paragraph (e), which apply to transactions that were entered into on or after January 1, 1994, or were entered into before that date and remained in existence on March 31, 1994, these final regulations generally apply to all open taxable years. Taxpayers may, however, rely on any paragraph in §1.1221-2T (26 CFR part 1 revised as of April 1, 1994), for transactions entered into prior to October 1, 1994, provided that the taxpayer applies the paragraph reasonably and consistently.

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) and the Regulatory Flexibility Act (5 U.S.C. chapter 6) do not apply to these regulations, and, therefore, a Regulatory Flexibility Analysis is not required. Pursuant to section 7805(f) of the Internal Revenue Code, the notice of proposed rulemaking preceding these regulations was submitted to the Small Business Administration for comment on its impact on small business.

Drafting Information

The principal author of these regulations is Jo Lynn Ricks, Office of Assistant Chief Counsel (Financial Institutions and Products). However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects

26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

26 CFR Part 602

Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

Accordingly, 26 CFR parts 1 and 602 are amended as follows:

PART 1--INCOME TAXES

Paragraph 1. Effective [**INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER**] the authority citation for part 1 is amended by adding an entry in numerical order to read as follows:

Authority: 26 U.S.C. 7805 * * *

Section 1.1221-2 also issued under 26 U.S.C. 6001. * * *

Par. 2. Effective October 1, 1994, the authority citation is further amended by removing the entry for §1.1221-2T.

Par. 3. Effective [**INSERT DATE THIS DOCUMENT IS PUBLISHED IN THE FEDERAL REGISTER**] §1.1221-2 is added to read as follows:

§1.1221-2 Hedging transactions.

(a) Treatment of hedging transactions--(1) In general. This section governs the treatment of hedging transactions under section 1221. Except as provided in paragraph (f)(2) of this section (and notwithstanding the provisions of §1.1221-1(a)), the term capital asset does not include property that is part of a hedging transaction (as defined in paragraph (b) of this section).

(2) Short sales and options. This section also governs the character of gain or loss from a short sale or option that is part of a hedging transaction. See §§1.1233-2 and 1.1234-4. Except as provided in paragraph (f)(2) of this section, gain or loss on a short sale or option that is part of a hedging transaction (as defined in paragraph (b) of this section) is ordinary income or loss.

(3) Exclusivity. If a transaction is not a hedging transaction as defined in paragraph (b) of this section, gain or loss from the transaction is not made ordinary on the grounds that property involved in the transaction is a surrogate for a noncapital asset, that the transaction serves as insurance against a business risk, that the transaction serves a hedging function, or that the transaction serves a similar function or purpose.

(4) Coordination with other sections--(i) Section 988. This section does not apply to determine the character of gain or loss realized on a section 988 transaction as defined in section 988(c)(1) or realized with respect to a qualified fund as defined in section 988(c)(1)(E)(iii). This section does apply, however, to transactions or payments that would be subject to section 988 but for the date that the transactions were entered into or the date that the payments were made.

(ii) Sections 864(e) and 954(c). Except as otherwise provided in regulations issued pursuant to sections 864(e) and 954(c), the definition of hedging transaction in paragraph (b) of this section does not apply for purposes of section 864(e) and 954(c).

(b) Hedging transaction defined. A hedging transaction is a transaction that a taxpayer enters into in the normal course of the taxpayer's trade or business primarily--

(1) To reduce risk of price changes or currency fluctuations with respect to ordinary property (as defined in paragraph (c)(5) of this section) that is held or to be held by the taxpayer; or

(2) To reduce risk of interest rate or price changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, by the taxpayer.

(c) Rules of application. The rules of this paragraph (c) apply for purposes of the definition of the term hedging transaction in paragraph (b) of this section. These rules must be interpreted reasonably and consistently with the purposes of this section. Where no specific rules of application control, the definition of hedging transaction must be interpreted reasonably and consistently with the purposes of this section.

(1) Reducing risk--(i) Transactions that reduce risk. Whether a transaction reduces a taxpayer's risk is determined based on all of the facts and circumstances surrounding the taxpayer's business and the transaction. In general, a taxpayer's hedging strategies and policies as reflected in the taxpayer's minutes or other records are evidence of whether particular transactions reduce the taxpayer's risk.

(ii) Micro and macro hedges--(A) In general. A taxpayer has risk of a particular type only if it is at risk when all of its operations are considered. Nonetheless, a hedge of a particular asset or liability generally will be respected as reducing risk if it reduces the risk attributable to the asset or liability and if it is reasonably expected to reduce the overall risk of the taxpayer's operations. If a taxpayer hedges particular assets or liabilities, or groups of assets or liabilities, and the hedges are undertaken as part of a program that, as a whole, is reasonably expected to reduce the overall risk of the taxpayer's operations, the taxpayer generally does not have to demonstrate that each hedge that was entered into pursuant to the program reduces its overall risk.

(B) Fixed-to-floating hedges. Under the principles of paragraph (c)(1)(ii)(A) of this section, a transaction that economically converts an interest rate or price from a fixed price or rate to a floating price or rate may reduce risk. For example, if a taxpayer's income varies with interest rates, the taxpayer may be at risk if it has a fixed rate liability. Similarly, a taxpayer with a fixed cost for its inventory may be at risk if the price at which the inventory can be sold varies with a particular factor. Thus, a transaction that converts an interest rate or price from fixed to floating may be a hedging transaction.

(iii) Written options. A written option may reduce risk. For example, in appropriate circumstances, a written call option with respect to assets held by a taxpayer or a written put option with respect to assets to be acquired by a taxpayer may be a hedging transaction. See also paragraph (c)(1)(v) of this section.

(iv) Extent of risk reduction. A taxpayer may hedge all or any portion of its risk for all or any part of the period during which it is exposed to the risk.

(v) Transactions that counteract hedging transactions. If a transaction is entered into primarily to counteract all or any part of the risk reduction effected by one or more hedging transactions, the transaction is a hedging transaction. For example, if a written option is used to reduce or eliminate the risk reduction obtained from another position such as a purchased option, then it may be part of a hedging transaction.

(vi) Number of transactions. The fact that a taxpayer frequently enters into and terminates positions (even if done on a daily or more frequent basis) is not relevant to whether these transactions are hedging transactions. Thus, for example, a taxpayer hedging the risk associated with an asset or liability may frequently establish and terminate positions that hedge that risk, depending on the extent the taxpayer wishes to be hedged. Similarly, if a taxpayer maintains its level of risk exposure by entering into and terminating a large number of transactions in a single day, its transactions may nonetheless qualify as hedging transactions.

(vii) Transactions that do not reduce risk. A transaction that is not entered into to reduce a taxpayer's risk is not a hedging transaction. For example, assume that a taxpayer produces a commodity for sale, sells the commodity, and enters into a long futures or forward contract in that commodity in the hope that the price will increase. Because the long position does not reduce risk, the transaction is not a hedging transaction. Moreover, gain or loss on the contract is not made ordinary on the grounds that it is a surrogate for inventory. See paragraph (a)(3) of this section.

(2) Entering into a hedging transaction. A taxpayer may enter into a hedging transaction by using a position that was a hedge of one asset or liability to hedge another asset or liability (recycling).

(3) No investments as hedging transactions. If an asset (such as an investment) is not acquired primarily to reduce risk, the purchase or sale of that asset is not a hedging transaction even if the terms of the asset limit or reduce the taxpayer's risk with respect to other assets or liabilities. For example, a taxpayer's interest rate risk from a floating rate borrowing may

be reduced by the purchase of debt instruments that bear a comparable floating rate. The acquisition of the debt instruments, however, is not a hedging transaction because the transaction is not entered into primarily to reduce the taxpayer's risk. Similarly, borrowings generally are not made primarily to reduce risk.

(4) Normal course. Solely for purposes of paragraph (b) of this section, if a transaction is entered into in furtherance of a taxpayer's trade or business, the transaction is entered into in the normal course of the taxpayer's trade or business. This rule applies even if the risk to be reduced relates to the expansion of an existing business or the acquisition of a new trade or business.

(5) Ordinary property and obligations--(i) In general. Except as provided in paragraph (g)(3) of this section (which contains transition rules), property is ordinary property to a taxpayer only if a sale or exchange of the property by the taxpayer could not produce capital gain or loss regardless of the taxpayer's holding period when the sale or exchange occurs. Thus, for example, property used in a trade or business within the meaning of section 1231(b) (determined without regard to the holding period specified in that section) is not ordinary property. An obligation is an ordinary obligation if performance or termination of the obligation by the taxpayer could not produce capital gain or loss. For purposes of the preceding sentence, termination has the same meaning as in section 1234A.

(ii) Hedges of noninventory supplies. Notwithstanding paragraph (c)(5)(i) of this section, if a taxpayer sells only a negligible amount of a noninventory supply, then, only for purposes of determining whether a transaction to hedge the purchase of that noninventory supply is a hedging transaction, the supply is treated as ordinary property. A noninventory supply is a supply that a taxpayer purchases for consumption in its trade or business and that is not an asset described in sections 1221(1) through (5).

(6) Borrowings. Whether hedges of a taxpayer's debt issuances (borrowings) are hedging transactions is determined without regard to the use of the proceeds of the borrowing.

(7) Hedging an aggregate risk. The term hedging transaction includes a transaction that reduces an aggregate risk of interest rate changes, price changes, and/or currency fluctuations only if all of the risk, or all but a de minimis amount of the risk, is with respect to ordinary property, ordinary obligations, and borrowings.

(d) Hedging by members of a consolidated group. [Reserved].

(e) Identification and recordkeeping--(1) Same-day identification of hedging transactions. A taxpayer that enters into a hedging transaction (including recycling an existing hedge) must identify it as a hedging transaction. This identification must be made before the close of the day on which the taxpayer enters into the transaction.

(2) Substantially contemporaneous identification of hedged item--(i) Content of the identification. A taxpayer that enters

into a hedging transaction must identify the item, items, or aggregate risk being hedged. Identification of an item being hedged generally involves identifying a transaction that creates risk, and the type of risk that the transaction creates. For example, if a taxpayer is hedging the price risk with respect to its June purchases of corn inventory, the transaction being hedged is the June purchase of corn and the risk is price movements in the market where the taxpayer buys its corn. For additional rules concerning the content of this identification, see paragraph (e)(3) of this section.

(ii) Timing of the identification. The identification required by this paragraph (e)(2) must be made substantially contemporaneously with entering into the hedging transaction. An identification is not substantially contemporaneous if it is made more than 35 days after entering into the hedging transaction.

(3) Identification requirements for certain hedging transactions. In the case of the hedging transactions described in this paragraph (e)(3), the identification under paragraph (e)(2) of this section must include the information specified.

(i) Anticipatory asset hedges. If the hedging transaction relates to the anticipated acquisition of assets by the taxpayer, the identification must include the expected date or dates of acquisition and the amounts expected to be acquired.

(ii) Inventory hedges. If the hedging transaction relates to the purchase or sale of inventory by the taxpayer, the identification is made by specifying the type or class of inventory to which the transaction relates. If the hedging transaction relates to specific purchases or sales, the identification must also include the expected dates of the purchases or sales and the amounts to be purchased or sold.

(iii) Hedges of debt of the taxpayer--(A) Existing debt. If the hedging transaction relates to accruals or payments under an issue of existing debt of the taxpayer, the identification must specify the issue and, if the hedge is for less than the full adjusted issue price or the full term of the debt, the amount and the term covered by the hedge.

(B) Debt to be issued. If the hedging transaction relates to the expected issuance of debt by the taxpayer or to accruals or payments under debt that is expected to be issued by the taxpayer, the identification must specify the following information: the expected date of issuance of the debt; the expected maturity or maturities; the total expected issue price of the issue; and the expected interest provisions. If the hedge is for less than the entire expected issue price of the debt or the full expected term of the debt, the identification must also include the amount or the term being hedged. The identification may indicate a range of dates, terms, and amounts, rather than specific dates, terms, or amounts. For example, a taxpayer might identify a transaction as hedging the yield on an anticipated issuance of fixed rate debt during the second half of its fiscal year, with the anticipated amount of the debt between $75 million and $125 million, and an anticipated term of approximately 20 to 30 years.

(iv) Hedges of aggregate risk--(A) Required identification. If a transaction hedges aggregate risk as described in paragraph (c)(7) of this section, the identification under paragraph (e)(2) of this section must include a description of the risk being hedged and of the hedging program under which the hedging transaction was entered. This requirement may be met by placing in the taxpayer's records a description of the hedging program and by establishing a system under which individual transactions are identified as being entered into pursuant to the program.

(B) Description of hedging program. A description of a hedging program must include an identification of the type of risk being hedged, a description of the type of items giving rise to the risk being aggregated, and sufficient additional information to demonstrate that the program is designed to reduce aggregate risk of the type identified. If the program contains controls on speculation (for example, position limits), the description of the hedging program must also explain how the controls are established, communicated, and implemented.

(4) Manner of identification and records to be retained--(i) Inclusion of identification in tax records. The identification required by this paragraph (e) must be made on, and retained as part of, the taxpayer's books and records.

(ii) Presence or absence of identification must be unambiguous. The presence or absence of an identification for purposes of this paragraph (e) must be unambiguous. The identification of a hedging transaction for financial accounting or regulatory purposes does not satisfy this requirement unless the taxpayer's books and records indicate that the identification is also being made for tax purposes. The taxpayer may indicate that individual hedging transactions, or a class or classes of hedging transactions, that are identified for financial accounting or regulatory purposes are also being identified as hedging transactions for purposes of this section.

(iii) Manner of identification. The taxpayer may separately and explicitly make each identification, or, so long as paragraph (e)(4)(ii) of this section is satisfied, the taxpayer may establish a system pursuant to which the identification is indicated by the type of transaction or by the manner in which the transaction is consummated or recorded. An identification under this system is made at the later of the time that the system is established or the time that the transaction satisfies the terms of the system by being entered, or by being consummated or recorded, in the designated fashion.

(iv) Examples. The following examples illustrate the principles of paragraph (e)(4)(iii) of this section and assume that the other requirements of paragraph (e) of this section are satisfied.

(A) A taxpayer can make an identification by designating a hedging transaction for (or placing it in) an account that has been identified as containing only hedges of a specified item (or of specified items or specified aggregate risk).

(B) A taxpayer can make an identification by including and retaining in its books and records a statement that designates all future transactions in a specified derivative product as hedges of a specified item, items, or aggregate risk.

(C) A taxpayer can make an identification by placing a designated mark on a record of the transaction (for example, trading ticket, purchase order, or trade confirmation) or by using a designated form or a record that contains a designated legend.

(5) Identification of hedges involving members of the same consolidated group. [Reserved].

(6) Consistency with section 1256(e)(2)(C). Any identification for purposes of section 1256(e)(2)(C) is also an identification for purposes of paragraph (e)(1) of this section.

(f) Effect of identification and non-identification--(1) Transactions identified--(i) In general. If a taxpayer identifies a transaction as a hedging transaction for purposes of paragraph (e)(1) of this section, the identification is binding with respect to gain, whether or not all of the requirements of paragraph (e) of this section are satisfied. Thus, gain from that transaction is ordinary income. If the transaction is not in fact a hedging transaction described in paragraph (b) of this section, however, paragraphs (a)(1) and (a)(2) of this section do not apply and the character of loss is determined without reference to whether the transaction is a surrogate for a noncapital asset, serves as insurance against a business risk, serves a hedging function, or serves a similar function or purpose. Thus, the taxpayer's identification of the transaction as a hedging transaction does not itself make loss from the transaction ordinary.

(ii) Inadvertent identification. Notwithstanding paragraph (f)(1)(i) of this section, if the taxpayer identifies a transaction as a hedging transaction for purposes of paragraph (e) of this section, the character of the gain is determined as if the transaction had not been identified as a hedging transaction if--

(A) The transaction is not a hedging transaction (as defined in paragraph (b) of this section);

(B) The identification of the transaction as a hedging transaction was due to inadvertent error; and

(C) All of the taxpayer's transactions in all open years are being treated on either original or, if necessary, amended returns in a manner consistent with the principles of this section.

(2) Transactions not identified--(i) In general. Except as provided in paragraphs (f)(2)(ii) and (iii) of this section, the absence of an identification that satisfies the requirements of paragraph (e)(1) of this section is binding and establishes that a transaction is not a hedging transaction. Thus, subject to the exceptions, the rules of paragraphs (a)(1) and (2) of this section do not apply, and the character of gain or loss is determined without reference to whether the transaction is a surrogate for a noncapital asset, serves as insurance against a business risk, serves a hedging function, or serves a similar function or purpose.

(ii) Inadvertent error. If a taxpayer does not make an identification that satisfies the requirements of paragraph (e) of this section, the taxpayer may treat gain or loss from the transaction as ordinary income or loss under paragraph (a)(1) or (a)(2) of this section if--

(A) The transaction is a hedging transaction (as defined in paragraph (b) of this section);

(B) The failure to identify the transaction was due to inadvertent error; and

(C) All of the taxpayer's hedging transactions in all open years are being treated on either original or, if necessary, amended returns as provided in paragraphs (a)(1) and (a)(2) of this section.

(iii) Anti-abuse rule. If a taxpayer does not make an identification that satisfies all the requirements of paragraph (e) of this section but the taxpayer has no reasonable grounds for treating the transaction as other than a hedging transaction, then gain from the transaction is ordinary. Thus, a taxpayer may not elect to treat gain or loss from a hedging transaction as capital gain or loss. The reasonableness of the taxpayer's failure to identify a transaction is determined by taking into consideration not only the requirements of paragraph (b) of this section but also the taxpayer's treatment of the transaction for financial accounting or other purposes and the taxpayer's identification of similar transactions as hedging transactions.

(3) Transactions by members of a consolidated group. [Reserved].

(g) Effective dates and transition rules--(1) Effective date for identification requirements--(i) In general. Paragraph (e) of this section applies to transactions that--

(A) Are entered into on or after January 1, 1994; or

(B) Are entered into before that date and remain in existence on March 31, 1994.

(ii) Transition rule. In the case of a hedging transaction that is entered into before January 1, 1994, and remains in existence on March 31, 1994, an identification is timely if it is made before the close of business on March 31, 1994.

(iii) Special rules for hedging transactions not described in §1.1221-2T(b). In the case of a transaction that is entered into before October 1, 1994, that is a hedging transaction within the meaning of paragraph (b) of this section (or is treated as a hedging transaction under paragraph (g)(3) of this section), and that the taxpayer reasonably treated as not being a hedging transaction within the meaning of paragraph (b) of §1.1221-2T (26 CFR part 1 revised as of April 1, 1994)--

(A) If the transaction does not remain in existence on October 1, 1994, paragraph (e) of this section does not apply; and

(B) If the transaction remains in existence on October 1, 1994, paragraph (e) of this section applies, and an identification is timely if it is made before the close of business on October 1, 1994.

(2) Reliance on §1.1221-2T--(i) General rule. A taxpayer may rely on any paragraph in §1.1221-2T (26 CFR part 1 revised as of April 1, 1994), for transactions entered into prior to October 1, 1994, provided that the taxpayer applies the paragraph reasonably and consistently.

(ii) Identification. In the case of a transaction entered into before October 1, 1994, an identification is deemed to satisfy paragraph (e) of this section if it satisfies §1.1221-2T(c) (26 CFR part 1 revised as of April 1, 1994). For this purpose, identification of the hedged item is timely if it is made within the period specified in paragraph (e)(2)(ii) of this section.

(3) Transition rules for hedges of certain property--(i) Transition rule for section 1231 assets. For all taxable years that ended prior to [**INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER**] and that, as of September 1, 1994, were still open for assessment under section 6501, a taxpayer may treat as hedging transactions all transactions that were entered into during those years and that hedge property used in the trade or business within the meaning of section 1231(b) (a section 1231 asset) if the taxpayer can establish that, during those years--

(A) Sales of section 1231 assets did not give rise to net gain treated as capital gain (after application of section 1231(c));

(B) All of the hedges of section 1231 assets would be hedging transactions under paragraph (b) of this section if section 1231 assets were ordinary property; and

(C) On original or amended returns, the taxpayer consistently treats all of the hedges of section 1231 assets as hedging transactions.

(ii) Transition rule for noninventory supplies. For all taxable years that ended prior to [**INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER**] and that, as of September 1, 1994, were still open for assessment under section 6501, a taxpayer may treat as hedging transactions all hedges of purchases of noninventory supplies (as defined in paragraph (c)(5)(ii) of this section) that would not otherwise qualify as hedging transactions and that were entered into during those years if the taxpayer can establish that, during those years--

(A) The taxpayer did not sell in any of those years more than 15 percent of the greater of the total amount of the supply held at the beginning of the year or the total amount of the supply acquired during that year;

(B) All of the hedges would be hedging transactions under paragraph (b) of this section if noninventory supplies were ordinary property; and

(C) On original or amended returns, the taxpayer consistently treats all of the hedges of noninventory supplies as hedging transactions.

(4) Effective date for hedges by members of a consolidated group. [Reserved].

§1.1221-2T [Removed]

Par. 4. Effective October 1, 1994, §1.1221-2T is removed.

Par. 5. Effective [**INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER**] §1.1233-2T is redesignated §1.1233-2 and is revised to read as follows:

§1.1233-2 Hedging transactions.

The character of gain or loss on a short sale that is (or is identified as being) part of a hedging transaction is determined under the rules of §1.1221-2.

Par. 6. Effective [**INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER**] §1.1234-4T is redesignated §1.1234-4 and is revised to read as follows:

§1.1234-4 Hedging transactions.

The character of gain or loss on an acquired or a written option that is (or is identified as being) part of a hedging transaction is determined under the rules of §1.1221-2.

Par. 7. Effective [**INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER**] §1.1256(e)-1 is added to read as follows:

§1.1256(e)-1 Identification of hedging transactions.

(a) Identification and recordkeeping requirements. Under section 1256(e)(2)(C), a taxpayer that enters into a hedging transaction must identify the transaction as a hedging transaction before the close of the day on which the taxpayer enters into the transaction.

(b) Requirements for identification. The identification of a hedging transaction for purposes of section 1256(e)(2)(C) must satisfy the requirements of §1.1221-2(e)(1). Solely for purposes of section 1256(f)(1), however, an identification that does not satisfy all of the requirements of §1.1221-2(e)(1) is nevertheless treated as an identification under section 1256(e)(2)(C).

(c) Consistency with §1.1221-2. Any identification for purposes of §1.1221-2(e)(1) is also an identification for purposes of this section. If a taxpayer satisfies the requirements of paragraph (f)(1)(ii) of §1.1221-2, the transaction is treated as if it were not identified as a hedging transaction for purposes of section 1256(e)(2)(C).

(d) Effective date. This section applies to transactions entered into on or after October 1, 1994.

PART 602--OMB CONTROL NUMBERS UNDER THE PAPERWORK REDUCTION ACT

Par. 8. The authority citation for part 602 continues to read as follows:

Authority: 26 U.S.C. 7805.

Par. 9. Effective [**INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER**] §602.101(c) is amended by adding an entry in numerical order to the table to read as follows:

§602.101 OMB Control numbers.

* * * * *

(c) * * *

CFR part or section where identified and described	Current OMB control number
* * * * *	
1.1221-2	1545-1403
* * * * *	

Par. 10. Effective October 1, 1994, in §602.101(c), the entry for §1.1221-2T(c) is removed.

Margaret Milner Richardson

Commissioner of Internal Revenue

Approved: June 3, 1994

Samuel Y. Sessions

Acting Assistant Secretary of the Treasury

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
July 14, 1994

REMARKS OF TREASURY SECRETARY LLOYD BENTSEN
WHITE HOUSE PRESS BRIEFING ON MID-SESSION REVIEW
WASHINGTON, D.C.

The '92 election hinged on one issue -- the economy. So, I'm here, with charts, to give the report card.

I've been around Washington a few years, so I can count some successes and I can count some blunders when it comes to reports like these. I won't grade the performance. The American people do that on election day.

But if anybody told me 18 months ago that we'd create 3.8 million jobs, we'd see some of the lowest inflation in 30 years, some of the lowest mortgage rates, and OMB would come out every few months with a downward budget deficit projection -- I'm not sure I would have believed it.

We walked in the door with two problems.

One, short term. A slow-growing, jobless recovery.

Two, long term. Businesses were under investing, which meant growth in productivity and income were sluggish.

You can't worry about the long-term one, you can't convince businesses to invest, unless we solve the short-term one. That one's not solved, but we're well on our way.

There's been more job growth -- 3.8 million jobs -- in a year and a half than there was in the previous four years. Ninety percent of this growth is in the private sector. About half of theirs was in the public sector. That's a huge difference.

At Treasury, I have 6,000 fewer positions than the day I started. Some of you hang onto every word I say on some subjects, but nobody's ever asked me: "Mr. Secretary, how are you making out with a reduced staff?"

LB-949

Since President Clinton took office, the private sector has created 208,000 jobs per month, versus only 27,000 during the previous four years. The unemployment rate has been cut from 7.7 percent when President Clinton took office to 6.0 percent today.

Real GDP growth under the previous Administration grew 1.5 percent. Under this Administration, it's grown a solid 3.2 percent. If you were with us at the G-7, you know the United States is growing faster than any of the other industrialized countries.

So, we're growing faster than our own past performance, and faster relative to the standard in other countries. By any standard, this economy is doing well.

And the key is -- we're growing with inflation under control. Under this Administration, inflation has averaged 2.7 percent. With the exception of the oil price collapse of 1986, inflation hasn't been this low since the 1960s.

Interest rates have risen since last October, but this seems mostly to reflect the stronger economy, rising demands for credit, and Federal Reserve action. If the inflation outlook has changed at all, it's been in the direction of improvement.

Remember -- we got here the hard way. Last year, Congress passed a tough vote. But as Leon Panetta told you this week, there's been a nearly $700 billion reduction in the projected national debt: $500 billion from the vote, another $200 billion because of the growing strength of the economy.

With this strength, it doesn't surprise me to see mortgage rates at low levels. I'm not surprised that consumer confidence has rebounded and that the interest-sensitive industries, like housing and autos, are doing well.

What's it mean to a family? Last year, 5 1/2 million homeowners refinanced their mortgages and put more money in their pockets. If you have a job, and you're not worrying you'll lose it, then you'll go out and buy goods.

So, short term, we have a growing economy that's producing jobs. Now, we're tackling the long-term problem -- business investment.

If a person is willing to go into hock to open a new business, if a company is willing to take a risk and open a new plant, that's the best vote of confidence I know of in this economy.

Since this Administration took office, investment in equipment has soared to an 18 percent annual rate, vs. a rate of 2 percent in the last four years.

Last year, new business incorporations reached their highest level -- ever. There aren't many better signs in the faith in the outlook for the U.S. economy than that one.

More investment means a more productive economy and contributes to a rising standard of living for Americans.

I look back over the past 18 months, and I see progress. But, I'll be honest. Sometimes I get mad in this job. Sometimes, I'd like to grab some people by the neck who talk about how bad our economic policies are in Washington -- and make them look at what I've just shown you.

Every time I go to another country -- and I see an unemployment rate of 12 percent in Europe, or I see Japan growing at one third the rate we're growing -- it feels good to come back home.

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 9th, 1994

SUMMIT COMMUNIQUE

1. We, the Heads of State and Government of seven major industrial nations and the President of the European Commission, have met in Naples on 8th-9th July 1994 for our 20th meeting.

2 We have gathered at a time of extraordinary change in the world economy. New forms of international inter-action are having enormous effects on the lives of our peoples and are leading to the globalization of our economies.

3. 50 years ago, at Bretton Woods, visionary leaders began to build the institutions that provided our nations with two generations of freedom and prosperity. They based their efforts on two great and abiding principles – democracy and open markets.

As we approach the threshold of the 21st century, we are conscious of our responsibility to renew and revitalize these institutions and to take on the challenge of integrating the newly emerging market democracies across the globe.

To carry out this responsibility, we have agreed that, in Halifax next year, we will focus on two questions: (1) how can we assure that the global economy of the 21st century will provide sustainable development with good prosperity and well-being of the peoples of our nations and the world ? (2) What framework of institutions will be required to meet these challenges in the 21st century ? How can we adapt existing institutions and build new institutions to ensure the future prosperity and security of our people ?

Jobs and growth

1. A year ago, recovery was absent or hesitant in all our economies. Today, encouraging results are emerging. Recovery is under way. New jobs have been created, and in more and more of our countries people are getting back to work. Inflation is now at the lowest levels in over three decades and the conditions are in place for strong and lasting non-inflationary growth. Therefore we reconfirm the growth strategy we agreed in Tokyo. We call on our Finance Ministers to cooperate closely to keep recovery on track and we have asked them to henance the on going process of multilateral surveillance and policy cooperation. We also encourage stronger cooperation between our appropriate authorities to respond to the growing integration of the global capital markets.

LB-950

2. But unemployment remains far too high, with over 24 million unemployed in our countries alone. This is an unacceptable waste. It is particularly damaging when - as in many of our countries - it is concentrated among young people and those who have been out of work for a long time.

3. Following the jobs conference in Detroit and the analysis of the OECD we have identified the actions we need to take.
- We will work for growth and stability, so that business and individuals can plan confidently for their future.

- We will build on the present recovery by accelerating reforms so as to improve the capacity of our economies to create jobs.
Both of these elements are essential in order to achieve a lasting reduction in the level of unemployment.

4. We will concentrate on the following structural measures. We will:

- increase investment in our people: through better basic education; through improving skills; through improving the transition from school to work; through involving employers fully in training and - as agreed at Detroit - through developing a culture of lifetime learning;

- reduce labour rigidities which add to employment's costs or deter job creation, eliminate excessive regulations and ensure that indirect costs of employing people are reduced wherever possible;

- pursue active labour market policies that will help the unemployed to search more effectively for jobs and ensure that our social support systems create incentives to work;

- encourage and promote innovation and the spread of new technologies including, in particular, the development of an open, competitive and integrated worldwide information infrastructure; we agreed to convene in Brussels a meeting of our relevant Ministers to follow up these issues.

- pursue opportunities to promote job creation in areas where new needs now exist, such as quality of life, and protection of the environment.

- promote competition, through eliminating unnecessary regulations and through removing impediments to small and medium-sized firms;

5. For the implementation of this programme we call for the active involvement of business and labour and the support of our people.

6. We are determined to press ahead with this action programme and will review the progress made towards realising our objectives of sustained growth and the creation of more - and better quality -new jobs.

Trade

1. Opening markets fosters growth, generates employment and increases prosperity.
The signing of the Uruguay Round Agreements and the creation of the WTO are important milestones in postwar trade liberalisation.

2. We are determined to ratify the Uruguay Round Agreements and to establish the WTO by January 1st, 1995 and call on other countries to do the same.

We are resolved to continue the momentum of trade liberalisation. We call on the WTO, IMF, World Bank and the OECD to cooperate within their own areas of responsibility.

3. On new international trade issues we encourage work under way in the OECD to study the interaction of international trade rules and competition policies. We support the further development of international investment rules in order to remove obstacles to foreign direct investment.

4. We welcome the work on the relation between trade and environment in the new WTO. We call for intensified efforts to improve our understanding of new issues including employment and labour standards and their implications for trade policies

5. In our meeting next year we will review progress on these issues.

Environment

1. Environment is a top priority for international cooperation. Environmental policies can contribute to enhancing growth, employment and living standards, for example through investments in appropriate technologies, energy efficiency improvements and cleaning-up polluted areas.

2. We urge the multilateral development banks to continue making progress in promoting local participation and incorporating environmental considerations into their programmes.

3. We support the work of the Commission on Sustainable Development in reviewing progress in the implementation of the Rio process. We look forward to the implementation of the Conventions already concluded, in particular those on biological diversity and climate-change and in this respect we will work for the success of the forthcoming Conferences on these subjects in Nassau and Berlin.

4. We welcome the restructuring and the replenishment of the Global Environment Facility (GEF) and we support its choice as the permanent financial mechanism of these two Conventions.

We welcome the recent conclusion of the Convention on Desertification and the results of the Conference on Small Islands, which add to the framework agreed in Rio.

5. We are determined to speed up the implementation of our national plans called for under the Rio Climate Treaty and we will each report what we have achieved at next year's Summit. We also recognize the need to develop steps for the post -2000 period.

Developing countries

1 We welcome the economic progress of many developing countries. We are concerned, however, by the stagnation and continued poverty in some countries, particularly in Africa. Since rapid population growth has aggravated poverty in many countries, we stress the importance of a positive outcome of the Cairo Conference on Population and Development.

2. We are committed to continue our efforts to enhance development assistance as well as promoting trade and investment in developing countries

We are encouraged by significant private capital flows to developing countries and by the efforts of many of these countries, particularly in Latin America and Asia, to increase trade among themselves.

We call on the World Bank as well as the regional development banks to strengthen their efforts to reinforce private capital flows to the developing world while providing growing resources for health, education, family policies and environmental protection.

We encourage the Paris Club to pursue its efforts to improve the debt treatment of the poorest and most indebted countries. Where appropriate, we favour a reduction in the stock of debt and an increase in concessionality for those countries facing special difficulties.

We welcome the renewal of the ESAF and the measures under consideration by the IMF to increase support to developing countries and to ensure that all members take part in the SDR system. In addition we agree to explore ways to mobilize more effectively the existing resources of the International Financial Institutions to respond to the special needs of countries emerging from economic and political disruption and the poorest most indebted countries.

3. In the Middle East, economic development is essential to underpin the peace process. Thus, along with others, we are providing financial and technical assistance to the Palestinian Authority and are working to promote cooperation and development in the region. We call for an end to the Arab boycott of Israel.

We warmly welcome South Africa's transition to full democracy. This will open up new opportunities for trade and inward investment. We will provide further assistance to help strengthen economic and social development, in particular for the poorest groups . Not only the people of South Africa but also her regional neighbours have much to gain from steady economic policies that unlock her full potential. We also welcome the adjustment measures taken by the countries in the CFA Franc area after the recent devaluation and the prompt support from the International Community

Nuclear safety

1 We welcome the progress made in the nuclear safety programme, agreed by the Munich and Tokyo summits, concerning the countries of Central and Eastern Europe and former Soviet Union.

2. An effective framework for coordinated action is now in place. The World Bank, working with other lending institutions including the EBRD and the EIB, and with the IEA, is helping countries develop long term energy strategies. Some near-term safety improvements are on the way. More needs to be done and longer term actions must be carried out. The IFIs are invited according to their mandate to make full use of their lending possibilities for this purpose.

3. We remain committed to the existing international initiatives to promote an early closure of high risk reactors. The closing down of the Chernobyl nuclear power plant is an urgent priority.

We are therefore putting forward to the Ukrainian Government an action plan for the closure of Chernobyl. This plan will require measures to be taken by the Ukrainian authorities as well as financial contributions from the international community.

The closure of Chernobyl would be accompanied by the early completion of three new reactors to adequate safety standards, by comprehensive reforms in the energy sector, increased energy conservation and the use of other energy sources.

4. In this context we welcome the contribution by the European Union. As a further step we are ready to provide for the Action Plan an initial amount of up to US $ 200 million in grants, including a replenishment of the Nuclear Safety Account for this purpose. In addition loans should be provided by the IFIs.

We call on other donors and international financial institutions to join us in supporting this action plan and will review progress regularly.

Ukraine

We wish to see a stable and independent Ukraine.

We welcome the Trilateral Statement, Ukraine's ratification of the START I Treaty, and steps to remove nuclear weapons. We look forward to Ukraine's accession to the NPT as a non-nuclear weapon State.

But we are deeply concerned about the economic situation. Genuine reform is the only way to improve the economy. We urge the Ukrainian Government to design and implement rapidly stabilization and structural reforms, including price liberalization and privatization. This would provide the basis for IMF lending and for substantial loans by the World Bank and the EBRD. We are committed to support comprehensive reform efforts through substantial technical and financial assistance and by facilitating improved access to our markets for Ukrainian products.

With a renewed commitment to comprehensive market reform, Ukraine could gain access to international financing of over $ 4 billion in the course of a two year period following the commencement of genuine reforms.

We endorse the proposal for a conference on Partnership for Economic Transformation in Ukraine to be held in Canada before our next meeting.

Russia

1. We recognize the historical dimension of the reform process in Russia. We are encouraged by the commitment to reform, both political and economic, of the Russian leadership and by the progress made so far.

2. The approach we endorsed in Tokyo last year is producing results. We welcome the agreement with the IMF on an economic programme and the recent series of loan agreements with the World Bank and the EBRD. We encourage Russia to work with the International Financial Institutions to stabilize the economy, reinforce the reform process, and reduce social hardship.

The increases in IMF limits, provision of SDRs to new IMF members and acceleration of World Bank lending that are now under consideration will significantly augment the ability to support Russian reform efforts. The recently agreed comprehensive rescheduling of Russia's 1994 debt obligations will also help.

We continue to look to the Support Implementation Group to help remove practical obstacles in Russia to our support efforts.

3 Mobilizing domestic savings for productive use and attracting foreign direct investment will be crucial to the success of Russia's reforms. We therefore urge Russia to improve the legal and institutional framework for private investment and for external trade. We ourselves will continue to work with Russia towards GATT membership, in order to advance Russia's integration into the world economy and further improve access to our markets for Russian products.

4. We will continue to support reform in Russia.

Other countries in transition

We welcome the progress made and reaffirm our support for the reform efforts of the countries in transition.

In particular, we commend the political and economic transformation of the Central and Eastern European Countries and support their integration into free market .

Cooperation against transnational crime and money-laundering

1. We are alarmed by the growth of organized transnational crime, including money laundering, and by the use of illicit proceeds to take control of legitimate business. This is a world-wide problem with countries in transition increasingly targeted by criminal organisations. We are determined to strengthen international cooperation to address this situation.

We welcome the UN Conference on Organized Transnational Crime to be held in Naples next October.

2. On money-laundering, we recognize the achievements of the FATF, which we set up in 1989, and reaffirm our support for its continued work over the next five years. In order to achieve our goal, we agree that counter-measures need to be implemented by FATF members and other countries with significant financial centres. Ultimate success requires that all Governments provide for effective measures to prevent the laundering of proceeds from drug trafficking and other serious crime or offences which generate a significant amount of proceeds.

3. We urge countries to adopt necessary legislation wherever appropriate.

Next summit

Our discussions this year have convinced us of the benefits of a less formal Summit procedure, as we agreed in Tokyo last year. In Naples, we have been able to have a freer exchange of views and to forge a closer understanding between us.. Next year we look forward to an even more flexible and less formal summit.

We have accepted the invitation of the Prime Minister of Canada to meet in Halifax in ....1995.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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CONTACT: Office of Financing
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately $16,750 million of 52-week Treasury bills to be issued July 28, 1994. This offering will provide about $1,475 million of new cash for the Treasury, as the maturing 52-week bill is currently outstanding in the amount of $15,267 million. In addition to the maturing 52-week bills, there are $24,181 million of maturing 13-week and 26-week bills.

Federal Reserve Banks hold $10,361 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $3,962 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $296 million of the maturing 52-week issue.

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

Details about the new security are given in the attached offering highlights.

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Attachment

LB-951

HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS TO BE ISSUED JULY 28, 1994

July 15, 1994

Offering Amount	$16,750 million
Description of Offering:	
Term and type of security .	364-day bill
CUSIP number	912794 S9 6
Auction date	July 21, 1994
Issue date	July 28, 1994
Maturity date	July 27, 1995
Original issue date	July 28, 1994
Maturing amount.	$15,267 million
Minimum bid amount	$10,000
Multiples	$1,000
Submission of Bids:	
Noncompetitive bids	Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids.
Competitive bids . . .	(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%. (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position are $2 billion or greater. (3) Net long position must be reported one half-hour prior to the closing time for receipt of competitive bids.
Maximum Recognized Bid at a Single Yield . . .	35% of public offering
Maximum Award	35% of public offering
Receipt of Tenders:	
Noncompetitive tenders . .	Prior to 12:00 noon Eastern Daylight Saving time on auction day.
Competitive tenders	Prior to 1:00 p.m. Eastern Daylight Saving time on auction day.
Payment Terms	Full payment with tender or by charge to a funds account at a Federal Reserve bank on issue date.