

The New York Stock Exchange sees no reason for considering a securities or commodities dealer as engaged in business in the United States if he grants discretionary authority to an agent in a trade for his own account. The exchange recommends, therefore, that the phrase "except where the person so trading is a dealer in securities [or commodities]" be stricken from the bill.

3. *Repeal of withholding on interest and dividend payments.*—Consideration might be given to unilateral repeal of the withholding tax on interest and dividends paid to foreigners, or to the reduction of the percentage withheld. The withholding tax clearly deters investment by foreigners, and its repeal or reduction would appreciably stimulate foreign purchases of U.S. securities.

If the potential revenue loss makes unilateral action undesirable (the U.S. obtained, perhaps, \$100 million from the withholding tax in 1964), the U.S. should press for mutual reductions in the withholding tax with as many foreign countries as possible. Since transactions in outstanding securities have generally produced an inflow of funds to the United States, mutual reductions in the withholding rate would probably stimulate more foreign purchases of U.S. securities than U.S. purchases of foreign securities—except for the temporary adverse effect of the interest equalization tax.

4. *Easing taxes on foreign pension trusts.*—Taxes and other restrictions imposed on foreign pension trusts and similar investors should be eased. Domestic pension funds enjoy a tax exemption on their investment income. Foreign pension funds cannot obtain this exemption without going through the difficult procedure of obtaining approval from numerous Government agencies. As a result, these investors are discouraged from investing here, especially if they are exempt from taxes in their country of domicile.

Pension funds in some foreign countries have become increasingly important in recent years. For example, the Joint Economic Committee study of European capital markets indicates that pension funds in Britain have been one of the most rapidly growing sectors in that country's financial structure, and had investments of \$10 billion at the end of 1962.¹ It seems reasonable to assume, therefore, that by according foreign pension funds a tax treatment similar to that enjoyed by domestic funds, a considerable capital flow into the United States might be stimulated. Further, we assume that Treasury regulations can provide safeguards necessary to prevent any abuse of this legislation.

Consequently, taxes on the income of foreign pension funds and similar institutional investors should be eliminated by law; alternatively, these investors should be able to obtain tax exemption more readily. As a minimum step, the United States should work toward the mutual elimination of taxes on these types of investors.

The exchange believes that adoption of these amendments and additions would enhance the effectiveness of the proposed legislation considerably.

Respectfully submitted.

G. KEITH FUNSTON,
President, New York Stock Exchange.

¹ U.S. Congress, Joint Economic Committee, "A Description and Analysis of Certain European Capital Markets," 1964, p. 238.