the very least urge the administration to ease the procedures involved in qualifying these organizations for tax exemption. The difficulty in qualifying for tax exemption, even though it is afforded under the tax laws, is such that many foreign institutions refrain from investment in U.S. securities.

Permit foreign bank branches in this country to treat income from investment portfolios of U.S. securities as effectively connected with the trade or business in the United States, so that they can continue to take the deductions they are permitted under current law. Failure to do this could lead to a substantial liquidation of their holdings of U.S. securities.

The theme of Mr. Funston's statement is quite basic. The bill before the committee eliminates a number of tax deterrents to foreign investment in the United States. However, at the same time, it creates some new deterrents. In order to obtain the maximum impact on our balance-of-payments position, we recommend that the new deterrents to foreign investments should be eliminated from the bill and the additional incentives we propose be incorporated in the bill.

Thank you very much. If there are any questions, Mr. West and I will try to answer them.

Senator ANDERSON. In the statement of Mr. Funston, he refers again to this "effectively connected."

Mr. CHAPMAN. Yes.

Senator ANDERSON. You heard some discussion of it. Did that satisfy you?

Mr. CHAPMAN. Yes.

Senator ANDERSON. You think we ought to get a definition so everybody could understand it.

Senator Curtis?

Senator CURTIS. I think not. In light of the hour, I will refrain from questioning.

Senator ANDERSON. Thank you very much, Mr. Chapman. It is a good statement and we will include Mr. Funston's statement in the record.

Mr. CHAPMAN. Thank you very much.

(Mr. Funston's statement referred to above follows:)

STATEMENT OF G. KEITH FUNSTON, PRESIDENT, NEW YORK STOCK EXCHANGE, ON H.R. 13103

SUMMARY

The New York Stock Exchange vigorously supports the basic philosophy of H.R. 13103—"The Foreign Investors Tax Act of 1966"—to increase incentives for foreigners to invest in the United States. The bill, with the modifications we suggest, can be a decisive factor in increasing the flow of foreign funds to this country. If U.S. taxation of foreign investors is eased, other inhibiting factors are alleviated, and our private selling efforts are reinforced, the savings flowing here for investment from other countries should increase substantially—to the benefit of our balance of payments.

The bill, as originally introduced, embodied many of the recommendations of the Presidential Task Force (headed by now Secretary of the Treasury Fowler) on Promoting Foreign Investment and Increased Foreign Financing. One of the stated objectives of the Task Force was "to help establish conditions under which restraining influences on capital flows between the industrially advanced nations * * * can be removed, diminished or allowed to expire."

The problem of these capital flows is forcefully demonstrated by what happened during the last two years. In 1964 and 1965, partly because of the