

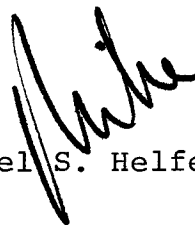
14B-03
14B-4,5

January 14, 1974

MEMORANDUM TO BOB GERARD

Re: Marianas Political Status Commission

Attached for your information are excerpts from the proposal made by the Puerto Rican members of the Ad Hoc Advisory Group on Puerto Rico with respect to the applicability of the federal "financial laws" in Puerto Rico.



Michael S. Helfer

10. Financial laws.

- a) The Principle: self-government and participation.
- b) Proposals and Justification:

A review is advisable of Puerto Rico's financial and banking structure and needs, its relationship with the financial system of the United States and the applicability in Puerto Rico of federal legislation in order that the people of Puerto Rico may determine the appropriate development of their own financial and banking system within the basic principles of a common market and a common currency with the United States.

One area that can be given as an example is that of the authority needed by Puerto Rico to establish policies conducive to furthering its economic growth.

Another is the inconsistency now existing whereby Puerto Rico is treated as a foreign jurisdiction by the Federal Reserve System, which permits United States state banks to do business in Puerto Rico, while, on the other hand, the National Banking Act applies to Puerto Rico permitting the organization of national banks not subject to Commonwealth jurisdiction.

It should also be noted that, while the Federal

Relations Act exempts from taxation by the government of the United States or by any state or other authority under its jurisdiction all bonds issued by the government of Puerto Rico or by its authority, it remains silent as to the converse. Although strictly as a matter of Puerto Rican policy a reciprocal exemption from Puerto Rican taxes is, of course, granted to the United States, state or territorial bonds, this is a matter of an organic nature which should clearly form part of the new Federal Relations Act.

In the field of taxation, there are several areas of common interest that merit review, such as the proper allocation of profits between Puerto Rico and the United States in the case of United States companies doing business in Puerto Rico.

It should finally be remarked that as the result of present conditions of law, the powers of the Secretary of the Treasury of Puerto Rico over the banking and financial structure of the Island are reduced to such a degree that extensive and fundamental activities do not come under his regulatory powers.