



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

UNDER SECRETARY

May 11, 2012

The Honorable Gary G. Miller  
U.S. House of Representatives  
Washington, DC 20515

Dear Representative Miller:

Thank you for your letter to Secretary Geithner regarding financial sector reform in China and the separate issue of Chinese government bonds that were sold during the first half of the 20<sup>th</sup> century.

Secretary Geithner and I strongly agree that financial sector reform has a critical role to play in China's economic transformation. As you know well, U.S. financial services firms face substantial market access barriers in China. We are pressing China – through the Strategic and Economic Dialogue (S&ED) and other channels – not only to comply fully with its WTO commitments on financial services, but to go beyond its WTO commitments, as well as to dismantle administrative barriers in China that disadvantage foreign financial firms.

At the fourth meeting of the S&ED on May 3-4, the Administration secured a number of important commitments from China to open up its financial sector to greater foreign participation. These include Chinese commitments to allow foreign investors to take up to 49 percent equity stakes in domestic securities joint ventures, beyond China's WTO commitment of 33 percent; to shorten the waiting period ("seasoning period") for foreign-invested securities joint ventures to apply to expand into brokerage, fund management and trading activities; to allow investors from the United States and other economies to establish joint venture brokerages to trade commodity and financial futures and hold up to 49 percent of the equity in those joint ventures; and to significantly expand the amount that foreigners can invest in China's stock market. This represents real progress, and we will work hard to build on it.

With respect to your request for information on bonds issued by the Chinese government in the first half of the twentieth century, please find an attachment that addresses your questions.

I look forward to continuing to work with you and your colleagues to enable the American people to benefit as much as possible from the U.S.-China economic relationship.

Sincerely,

Lael Brainard

**Attachment:** Background information on pre-communist Chinese government bonds

## **Background information on pre-communist Chinese government bonds**

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### **Does the Treasury Department hold any pre-Revolution Chinese bonds in its foreign exchange reserves?**

No. Treasury publishes the currency composition of its foreign exchange reserve holdings at <http://www.treasury.gov/resource-center/international/ESF/Pages/esf-index.aspx>. None of those holdings are in Chinese currency, nor are any of our foreign exchange reserves held in Chinese bonds, past or present. The Federal Reserve also regularly publishes information about the composition of their foreign exchange reserve holdings in the report Treasury and Federal Reserve Foreign Exchange Operations: Quarterly Reports. According to this information, none of those holdings are in Chinese currency, nor are any of the Federal Reserve's foreign exchange reserves held in Chinese bonds.

### **Does the Treasury Department or any other U.S. government agency, or the Federal Reserve, hold pre-Revolutionary Chinese government bonds?**

Not to our knowledge.

### **Does the U.S. government buy foreign government bonds, and if so, for what purposes?**

Other than for foreign exchange reserves, no.

### **Does the Treasury Department have information regarding how many American citizens currently hold pre-Revolutionary Chinese government bonds?**

No.

### **What, if anything, is the U.S. government's current legal obligation to help private bondholders seek and obtain settlement of defaulted sovereign bonds?**

The U.S. government has no legal obligation to help private bondholders seek and obtain settlement of defaulted sovereign bonds. The longstanding view of the U.S. Government is that the resolution of private claims on defaulted sovereign bonds is a private matter.

With regard to defaulted bonds issued in the recent past, bondholders have participated in debt restructuring activities, or availed themselves of the contractual remedies specified in the bonds, including filing lawsuits in the jurisdictions specified in the bonds.

In 1970, the Foreign Claims Settlement Commission (FCSC), a quasi-judicial, independent agency within the Justice Department, considered a claim on defaulted pre-1949 Chinese bonds

in connection with its now completed China program under the International Claims Settlement Act of 1949. That Act authorized the FCSC to adjudicate claims of U.S. nationals against the PRC for takings of property that first arose after October 1, 1949. In FCSC Decision No. CN-147 dated March 18, 1970, the FCSC concluded that because the bonds at issue had been in default since 1939 (ten years prior to the Chinese Communist assumption of power), the claim based on those bonds did not come under the purview of the Act, and accordingly denied the claim.

**What is the Treasury Department's position on these bonds – does it believe the current Chinese government has any obligation to satisfy these bonds, in whole or in part?**

The Treasury Department has no view as to whether the current Chinese government has any obligation to satisfy pre-1949 bonds, in whole or in part.

We have no direct knowledge of the bonds at issue or the circumstances under which the current holders acquired them.

**If any part of the Administration differs with Treasury's position, please identify and describe any disagreements.**

We are not aware of any disagreements on this matter within the Administration.